SONY

Digital Dream Kids

ANNUAL REPORT 1997

Year Ended March 31, 1997

Sony is one of the world's premier names in electronics and entertainment. Established in 1946, the company is now a globally active organization whose name is widely recognized as a mark of excellence on trend-setting products as well as a range of music, movie, and other entertainment software. Sony has always drawn on leading technology to carve out new markets. This drive is now focusing on digital and network technologies. Under the "Digital Dream Kids" concept, Sony aims to harness the potential of digital technology to continue supplying hardware and software that are sources of enjoyment for customers around the world.

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Financial Highlights

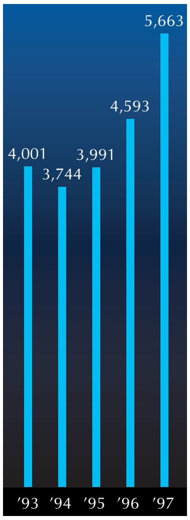
Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts		Percent change	Dollars in thousands except per share amounts
	1996	**1997**	1997/1996	**1997**
OPERATING RESULTS				
FOR THE YEAR				
Sales and operating revenue	¥4,592,565	**¥5,663,134**	+23.3%	**$45,670,435**
Operating income	235,324	**370,330**	+57.4	**2,986,532**
Income before income taxes	138,159	**312,429**	+126.1	**2,519,589**
Net income	54,252	**139,460**	+157.1	**1,124,677**
Per share:				
Net income	¥ 134.0	**¥ 309.2**	+130.7%	**$ 2.49**
Cash dividends	50.0	**55.0**		**0.44**
AT YEAR-END				
Stockholders' equity	¥1,169,173	**¥1,459,428**	+24.8%	**$11,769,581**
Total assets	5,045,725	**5,680,342**	+12.6	**45,809,210**
Number of employees	151,000	**163,000**		

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥124=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1997, as described in Note 3 of Notes to Consolidated Financial Statements.
2. As of March 31, 1997, Sony Corporation had 1,074 consolidated subsidiaries. It has applied the equity accounting method with respect to its 26 affiliated companies.
3. Refer to Note 2 of Notes to Consolidated Financial Statements, regarding the accounting policy for the earnings per share computation.

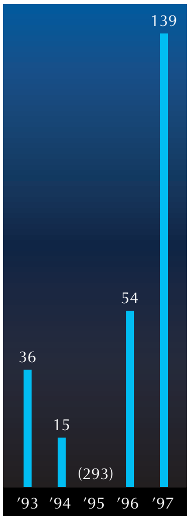
Sales and Operating Revenue

(Billion ¥)



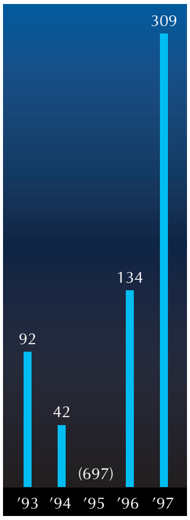
Net Income (Loss)

(Billion ¥)



Net Income (Loss) per Share

(¥)



To Our Shareholders

We are pleased to report that Sony celebrated its 50th anniversary during the fiscal year by posting record sales and earnings. Determined to build on this momentum over the next fifty years, we are taking steps to change ourselves by bringing about a Re-Generation from within the company.

Sony has consistently introduced audiovisual equipment that brings new meaning to the word “fun” in consumer electronics. The company has also continued to provide excitement through music and filmed entertainment. Today, the markets for entertainment hardware and software are being redefined by the forces of digital and networking technologies. Moreover, the advent of digital satellite broadcasting and other types of electronic distribution is enhancing the value of all types of entertainment software.

Sony’s course of action is clear. We are emphasizing information technology as a key element in the company’s future business development. We will continue to promote the incorporation of digital technology in our hardware and software businesses. Information technology will also add value to our vast store of music and filmed entertainment assets. As this process unfolds, we believe it is critical that we extend our business domain to encompass broadcasting and other forms of electronic distribution.

Record-Setting Performance

In the fiscal year ended March 31, 1997, consolidated sales and operating revenue rose to an all-time high of ¥5,663 billion ($45,670 million). This was the result of higher sales in all business segments —Electronics, Entertainment, and Insurance and Financing—combined with the progressive weakening of the yen. In the field of audiovisual equipment, sales of digital camcorders, MiniDisc systems, and other digital products climbed sharply. Our home video game business continued to expand worldwide and made a significant contribution to consolidated results. Falling sales prices impacted the performance of personal computer-related semiconductors and CD-ROM drives. In the entertainment field, highly successful releases included Celine Dion’s hit album *Falling Into You*, and *Jerry Maguire*, a blockbuster movie starring Tom Cruise.

Consolidated operating income was ¥370 billion ($2,987 million), income before income taxes was ¥312 billion ($2,520 million), and net income was ¥139 billion ($1,125 million)—each representing a record high. We will continue to work toward achieving even better profitability.

New Management Structure

In light of the ongoing diversification and globalization of Sony’s operations, management decided in May 1997 to reform the Board of Directors and to create the new position of corporate executive officer. This new system provides a clear division between individuals responsible for policy-making and oversight and those responsible for operational management. Our objective is to ensure that Sony has the solid management base necessary to support sustained growth. Regarding the Board of Directors, we plan to increase the number of outside directors and to promote candid and meaningful discussions

Nobuyuki Idei
President and Chief Operating Officer

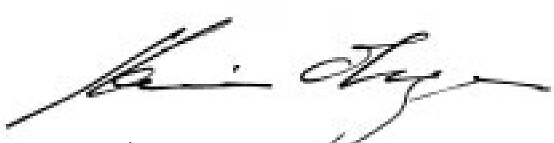
Norio Ohga
Chairman and Chief Executive Officer

by adjusting the size of the Board as appropriate. By establishing the position of corporate executive officer, we intend to strengthen Sony's ability to manage business operations. These proposals will be implemented after obtaining approval at the General Meeting of Shareholders on June 27, 1997.

Dream Creation

Since its inception, Sony has sought to create new markets and provide new lifestyle concepts to consumers. We are committed to remaining close to our customers and bringing new meaning to the word "fun" in electronics and entertainment. Guided by this commitment, we will strive to develop new business fields involving hardware, software, and the electronic distribution of contents —all part of the never-ending challenge of creating and realizing new dreams.

May 8, 1997



Norio Ohga
Chairman and Chief Executive Officer

Nobuyuki Idei
President and Chief Operating Officer

Sony's President Looks Ahead

Having celebrated its 50th anniversary in 1996, Sony is looking ahead to many more years of growth and prosperity. Rapid changes in technology, markets, and consumer preferences are giving rise to unprecedented challenges—and opportunities. President Nobuyuki Idei explains how Sony is laying the groundwork for another half century of progress.

What is the meaning of "Digital Dream Kids"?
The Digital Dream Kids concept defines the future direction of our product development activities. We aim to fulfill the dreams of customers worldwide who are captivated by the potential of digital technology. To do so, we must strive to supply products that are unique and fun to use. This is why we at Sony have to become digital dream kids mesmerized by new technologies. All of our hardware and software must be based on the premise of providing enjoyment.

What are Sony's top priorities right now?
First of all, we have to stay focused on our audiovisual businesses. The enjoyment provided by this sector is timeless. And, from a global point of view, there is still a great deal of room for growth in the audiovisual market.

A commitment to audiovisual products mandates that we emphasize production and quality. That means cultivating the enthusiasm of the people who make our products. It is no exaggeration to say that the passion of our engineers is what supports Sony's strength in the audiovisual field. If we continue to make products of outstanding quality, we expect that profits will follow.

Brand recognition is growing increasingly important. In this networking age, we are inundated with information. The power of the Sony brand is a major reason customers decide to visit our Website, for instance. In that sense, we must continue to pay attention to how our products are designed. Superior designs contribute directly to enhanced brand recognition.

How do you plan to expand the scope of Sony's business domains?
Selling hardware and software has long been Sony's primary business. Rapid progress in digital and network technologies is opening up new frontiers, however. It is vital that we aggressively

create businesses that integrate hardware and software to propose new kinds of enjoyment. Digital satellite broadcasting and other emerging network services present great opportunities for us. Music, movies, games, and other content are essential to the development of these businesses. Here, our enormous volume of software represents a great advantage.

What are your plans for the Pictures Group?

Our primary goal is to produce movies that are consistent with the Sony philosophy, which means embodying dreams. We are also working to take full advantage of Sony's digital technology in the production of movies.

I think today's movie industry depends too heavily on the United States. We need to establish more global distribution channels. Once we reach the point where we can provide a steady supply of movies, video software, TV programs, and other content on a global scale, performance in our Pictures Group should become more stable.

What kind of company do you want Sony to be?

Basically, I want Sony to be a company that makes dreams come true for all the people we come in contact with. We want to continue to supply products that fulfill the dreams of our customers worldwide, for example. We also want to attract people with creative talent, such as musical artists, movie directors, and game creators, and help them realize their own dreams. And this process leads to the creation of new dreams.

Sony is entering fields of business that bring together an unprecedented variety of activities. This is why we have to develop our own distinctive management methods. We are one of the few companies in the world that has leading strengths in both electronics and entertainment. These strengths enable us to develop businesses in a comprehensive manner. Spanning barriers between nations and languages as well as the division between electronics and entertainment, our activities are all driven by a common objective: to make dreams come true. While I am president, I intend to expound further upon this image I have for the Sony of tomorrow, and to create a system to promote the truly global management of this company.

Sony's business activities span a wide range of fields. Yet most share a common denominator: the convergence of digital technology and entertainment. Today, digital technology is the driving force behind our quest to provide customers with new and more exciting dreams and sources of enjoyment.

A Pioneer in Digitizing the Audiovisual Field

Sony helped pioneer the development of digital formats for audiovisual products. In 1982, we introduced the world's first CD player and were first with a MiniDisc system in 1992. A digital camcorder joined our digital line-up in 1995. With the introduction of a DVD video player in March 1997, Sony continues to be a leader in the development of new digital technologies and markets.

Through the many advantages of digital products, Sony has brought about marked improvements in picture and sound quality. More importantly, Sony achieved smaller size and greater convenience, thereby offering entirely new benefits for consumers.

Sony. We bring a

digital dimension to entertainment.

New Directions in Digital Technology

As Sony incorporates digital technology in its audiovisual products, the company is extending the scope of product functions to include networks such as the Internet. Promotion of the IEEE 1394 standard of the U.S.-based Institute of Electrical and Electronics Engineers is one method. This standard allows for the interactive communication of digital audiovisual equipment and PCs. The first Sony product adopting this standard is already available: a home-use Digital Handycam camcorder with an IEEE 1394 terminal. Sony envisions interactivity between audiovisual equipment and PCs as the gateway to a new world. Here, people can obtain audio or video selections from a network at any time and manipulate them, facilitating the editing, processing, and transmission of these materials.

Digital Distribution of Entertainment Software

Digital technology and networks are generating more opportunities for providers of such content as music, movies, TV programs, and video games. Digitization is creating digital satellite broadcasting and

other new services, thereby raising the number of channels. More channels mean more demand for programs. All types of content will benefit from this trend. Sony is therefore working to maximize the value of its extensive software library.

Going beyond the sale of hardware and software, Sony is implementing a comprehensive strategy that includes the distribution of contents. This thinking was behind the May 1997 investment in JSkyB, a digital satellite broadcasting venture in Japan. With this investment, Sony can take part in the management of this venture. In March 1997, Sony launched The Station@sony.com online service on the World Wide Web. This Website draws on Sony's vast stores of music, movies, TV programs, and video games. Visitors to the site can enjoy interactive games, view information on soap operas and children's TV programming, listen to music samplings, and access many other services.

Building a Base of Digital-Ready Content

Sony began marketing DVD-Video players and software during the year. The next few years will see the proliferation of digital satellite broadcasting. One point is clear. The future entertainment market will reward those able to supply digital-ready content. The High Definition Center of Sony Pictures Entertainment (SPE) has been busy converting SPE's movie library into high-quality video formats. Sony is prepared to meet demands for DVDs, digital satellite broadcasts, and other digital applications on the verge of rapid growth. Meanwhile, Sony Pictures Imageworks is pursuing a separate facet of this drive. By using Sony's expertise in digital electronics, this company is incorporating state-of-the-art digital special effects and animation techniques in movie and television production.

The company that brings DIGITAL technology and ENTERTAINMENT together

Digital devices and networks are quickly gaining a foothold in everyday life. We are helping to make this possible. Sony is uniquely positioned to benefit from the powerful union of digital technology and entertainment—whether by upgrading existing business lines or creating entirely new ones. We are determined to lead the way in entertainment and dream creation. The process has only just begun...

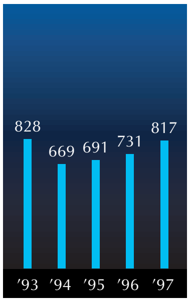
At a Glance

ELECTRONICS

Video Equipment

Video Equipment sales for the year under review rose 11.7 percent to ¥817 billion ($6,585 million), representing 14.4 percent of consolidated sales. In home-use camcorders, both 8mm and digital camcorders with LCD monitors posted extremely strong sales. Unit sales of home-use video decks increased, mainly in the United States. In broadcast- and industrial-use video equipment, Digital Betacam VTRs achieved strong sales, particularly in Europe.

Sales in Video Equipment
(Billion ¥)

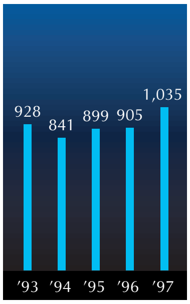


Comprises 8mm, VHS, and DV-format VTRs, DVD-Video players, video CD players, digital still cameras, broadcast- and industrial-use video equipment, and videotapes.

Audio Equipment

Audio Equipment sales advanced 14.3 percent to ¥1,035 billion ($8,345 million), or 18.3 percent of consolidated sales. Sales of MiniDisc (MD) products, including stereo systems incorporating MD decks and MD Walkman models, were up sharply, mainly due to their popularity in Japan. Unit sales of CD players continued to rise. Car stereos also achieved strong sales, driven by rising demand for CD players and MD players.

Sales in Audio Equipment
(Billion ¥)

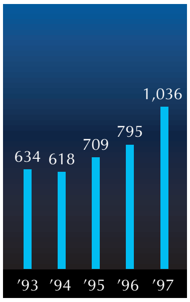


Encompasses MD systems, CD players, headphone stereos, personal component stereos, hi-fi components, radio-cassette tape recorders, tape recorders, digital audio tape (DAT) recorders/players, IC recorders, radios, headphones, car stereos, car navigation systems, professional-use audio equipment, audiotapes, and blank MDs.

Televisions

Sales in Televisions climbed 30.4 percent to ¥1,036 billion ($8,355 million), representing 18.3 percent of consolidated sales. In home-use TVs, unit sales of Trinitron color TVs continued to increase. In Japan, Sony introduced the industry's first home-use wide-screen TV that has a horizontally and vertically flat screen. Market response was favorable. Sales of computer displays grew significantly worldwide.

Sales in Televisions
(Billion ¥)

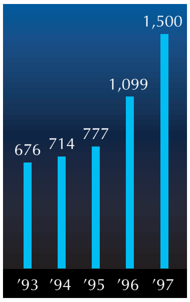


Includes color TVs, Hi-Vision TVs, projection TVs, flat display panels, personal LCD monitors, satellite broadcasting reception systems, computer displays, professional-use monitors/projectors, and large color video display systems.

Other Products

Sales in Other Products were up by 36.5 percent to ¥1,500 billion ($12,100 million), accounting for 26.5 percent of consolidated sales. Major contributors were the PlayStation game console and software, cellular phones, and lithium-ion batteries. Growth was offset somewhat by weakness in personal computer-related semiconductors, optical pickups, and CD-ROM drives.

Sales in Other Products
(Billion ¥)



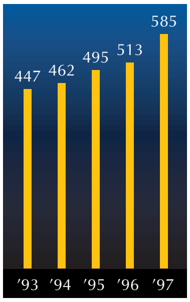
Consists of semiconductors, LCDs, electronic components, cathode ray tubes, personal computers, computer peripherals, telecommunications equipment, game consoles and software, batteries, and FA systems.

ENTERTAINMENT

Music Group

Music Group sales increased 14.0 percent to ¥585 billion ($4,717 million), representing 10.3 percent of consolidated sales. Recordings by Celine Dion, Fugees, Mariah Carey, Oasis, Jamiroquai, Michael Jackson, Pearl Jam, Julio Iglesias, Rage Against the Machine, and NAS, achieved outstanding worldwide sales. In Japan, hit albums included releases by JUDY AND MARY and Puffy.

Music Group Sales
(Billion ¥)



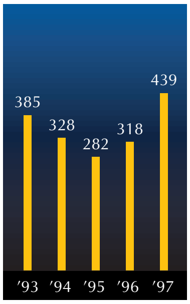
Sony Music Entertainment Inc. comprises Columbia Records Group; Epic Records Group; RED Distribution; Relatively Entertainment (Relatively Records, Harmony Records); Sony/ATV Music Publishing; Sony Classical; Sony Music Independent Labels (550 Music, Crave, The WORK Group); Sony Music International; Sony Music Nashville; and associated labels.

Sony Music Entertainment (Japan) Inc.

Pictures Group

Pictures Group sales rose 37.8 percent to ¥439 billion ($3,536 million), or 7.8 percent of consolidated sales. Results benefited from growth in the U.S. TV program production and distribution businesses as well as significantly higher sell-through video revenues worldwide. Licensing agreements involving the filmed entertainment library of Sony Pictures Entertainment were another source of sales growth. The enormous success of *Jerry Maguire* at the U.S. box office was one more contributor to sales.

Pictures Group Sales
(Billion ¥)



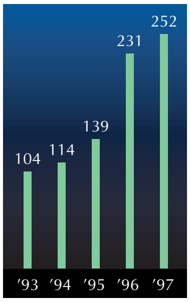
Sony Pictures Entertainment includes: the Columbia TriStar Motion Pictures Group (Columbia Pictures, TriStar Pictures, Sony Pictures Classics, Sony Pictures Releasing, Columbia TriStar Film Distributors International); the Columbia TriStar Television Group (Columbia TriStar Television, Columbia TriStar Television Distribution, Columbia TriStar International Television); Columbia TriStar Home Video; and Sony Pictures Studios and The Culver Studios.

Sony Retail Entertainment.

INSURANCE AND FINANCING

Revenues from Insurance and Financing increased 9.0 percent to ¥252 billion ($2,032 million), representing 4.4 percent of consolidated sales. The growth in revenues was mainly attributable to expansion of business operations at Sony Life Insurance Co., Ltd., a consolidated subsidiary in Japan.

Revenues from Insurance and Financing
(Billion ¥)



Primarily comprises the operations of Sony Life Insurance Co., Ltd., and Sony Finance International, Inc.

Review of Operations

Electronics

Video Equipment

Home-Use Camcorders

Sony set the pace in the global home-use camcorder market during the year under review, introducing new products that offered much improved convenience and performance.

New camcorders featuring LCD monitors and extended battery life were key contributors to sales growth in the 8mm Handycam series. New energy-efficient designs extend the battery lives of these camcorders.

During the year, Sony's Digital Handycam models, which conform to Consumer-Use Digital VCR Specifications (DV format), enjoyed increasing popularity. One model particularly well received in the marketplace is only as long and wide as a passport and features a newly developed CCD and a 2.5-inch LCD monitor. A DV input/output connector permits linking this model to digital video equipment for high-quality picture editing, or to a PC.

This video deck has a multi-picture function that allows users to skim as many as seven background programs at once, in addition to the current main channel selection.

When using the viewfinder, the new 8mm camcorder Handycam (left) has an 8-hour continuous recording capability, and the new Digital Handycam can record nonstop for 6-1/2 hours.

Home-Use Video Decks

« VHS/8mm Video Decks »

In the Japanese market, Sony introduced new models in its Double Video line, which features the 8mm and VHS formats in a single deck. The company also launched VHS video decks that allow timer programming by telephone. All these new products were popular among consumers. In the United States and Europe, Sony began selling a home theater model that combines a VHS video deck and an AV amplifier.

« Digital Video Decks »

Digital video decks bring picture and sound quality of the highest level to the home. These units make it possible to edit high-quality pictures from a digital camcorder and record programs from a digital satellite broadcast or other digital sources. Sony began marketing these DV format decks in Europe in March 1996 and in the United States in April 1997.

The passport-sized Digital Handycam offers excellent picture and sound quality.

DVD-Video Players

The DVD-Video format places a full-length movie with spectacular image and sound quality on an optical disc the size of an audio CD. Prospects for growth are excellent. The company's first DVD-Video players went on sale in Japan and the United States in spring 1997. Drawing on Sony's long experience in the fields of optical devices and digital signal processing, the players offer high image and sound quality. Consumers will see players in stores in 1997 in Asia, and in the spring of 1998 in Europe.

The advanced digital imaging technology of the Sony Group is being utilized in creating a steady stream of DVD software. Releases include hit movies from Sony Pictures Entertainment such as *Jumanji*, *In the Line of Fire,* and *Sleepless in Seattle*, as well as music titles from Sony Music Entertainment Inc.

Sony's DVD-Video player went on sale in the spring of 1997. It incorporates sophisticated video processing and audio surround technology to deliver outstanding picture and sound quality.

Digital Still Cameras

The market for digital still cameras is just starting to take off. During the year, Sony introduced a compact model with a lens that rotates 180 degrees, a 1.8-inch LCD monitor, and a built-in flash memory that holds up to 108 digital still images. Pictures can be viewed on an ordinary TV or downloaded to a PC for editing and processing.


Conforming to IrDA infrared transmission standards, this digital still camera can transmit image data to a compatible printer or PC without using a cable.

Broadcast- and Industrial-Use Video Equipment

« Digital Betacam »

Sony has been aggressively promoting the digitization of broadcast- and industrial-use video equipment, areas in which outstanding picture quality is required. The company reinforced this market leadership during the year as sales of Digital Betacam VTRs climbed worldwide, particularly in Europe. In January 1997, Sony received a significant order for a digital video production system from ERTU, the national broadcaster of Egypt. The order included Digital Betacam VTRs, studio cameras, and other studio equipment.

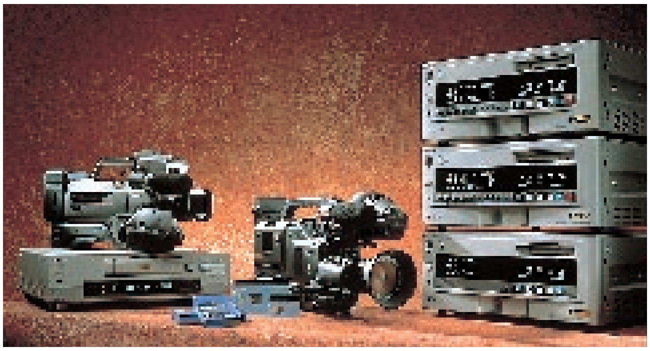
This non-linear editing system allows the rapid compilation of news programs. Images recorded by a Betacam SX camcorder can be downloaded to the hard-disk drive in its VTR at four times normal speed. This enables the instant replacement and revision of visual material.

« Betacam SX »

The revolutionary Betacam SX system debuted in late 1996. Sony developed this advanced system specifically to enable the rapid production and transmission of news programs and other time-sensitive materials. The Betacam SX system uses sophisticated digital image compression technology. This allows efficient non-linear editing by using a hard disk in combination with a video tape. Playback compatibility with the Betacam SP analog video standard adds still more convenience. Japan's Fuji Television Network Incorporated was among the major broadcasters to purchase the new broadcasting system built around Betacam SX VTRs and high-capacity AV servers. Sony has also received orders for two digital satellite broadcasting services ASkyB in the United States and DIRECTV JAPAN. Both of these broadcasting services are scheduled to begin in the near future.

« Industrial-Use Digital Video Production Systems »

The company during the year launched a DVCAM format digital VTR system for industrial use. The system has playback compatibility with the consumer-use DV format. Its major attributes include excellent picture and sound quality, superior reliability, and the ability to function in tandem with a non-linear editing unit.



The DVCAM format digital VTR system can be connected to a non-linear editing unit to perform video editing tasks with speed and accuracy.

Review of Operations

Electronics

Audio Equipment

Dazzling sound quality and extended playback are just some of this Walkman's many innovations. The body has a mirror finish to reflect the surroundings. It appears transparent when viewed at certain angles and levels of brightness.

MiniDisc (MD) System

Sales of MD systems rose substantially as Sony expanded product lines in all player and recorder categories. Sony unveiled new MD Walkman units, MD decks, stereo systems incorporating MD decks, and car MD players. These innovative products helped stimulate growth in the MD market.

In the MD Walkman sector, trend-setting products introduced in Japan fueled a sharp increase in sales. One model is only 13.5 millimeters thick and weighs 76 grams. Another model is no larger than the jacket of an MD, a new record for compact dimensions. Both incorporate a new LSI that more than halves power consumption compared with previous models. As a result, these two models can be powered by a single rechargeable gum-stick shaped nickel-hydride battery, a first for any MD player.

In the MD deck market, the company launched a model offering outstanding sound quality and upgraded recording capabilities. Available in Japan and overseas markets since August 1996, this deck generated a favorable consumer response. In Europe, the new model sparked much interest in the MD format.

CD Players

New Sony products continued to set the standard in CD player excellence during the year. In the field of portable players, Sony introduced a unit featuring improved protection against skipping compared with previous models. The player went on sale in Japan in December 1996, followed by successive launches in overseas markets. This model also realizes lower power consumption; four alkaline batteries enable approximately 40 hours of continuous playback.

Setting the pace in CD players for the home, Sony during the year introduced a changer capable of handling 200 discs, generating strong sales in the United States.

Walkman Headphone Stereos

Sony continued to expand its Walkman lineup during the year. One model offers up to 62 hours of continuous playback when powered by a rechargeable battery and an alkaline battery. This feat is made possible by advances in energy-efficient designs and high-capacity

Sony's IC recorder (right) has a flash memory to safely retain recordings even if the batteries fail. An LCD monitor shows the number of entries and makes it easy to access any given recording instantaneously.

The micro-cassette recorder has a feather-touch mechanism to permit control of playback and recording by gently tapping a button. A removable speaker provides the flexibility needed to adapt to a variety of situations.

This MD Walkman fits in a pocket with ease. Never before has it been so easy to enjoy dynamic MD sound.

battery technology. Fast-forward and rewind at 36 times playback speed is one more advantage this new Walkman unit offers. Walkman models with built-in synthesizer tuners were popular, mainly in overseas markets. Sony continued to expand its lineup, including a new model featuring a built-in storage space for headphones.

IC Recorders

Sony began selling an IC recorder during the year, adding a new dimension to its line of audio recording products. Available in Japan and overseas markets, the company's IC recorder stores sound in a flash memory chip. The chip can store 8 minutes of sound in standard mode or 16 minutes in extended play mode. There is space for up to 198 entries divided between two files. Operation is easy: the recorder can be controlled with just one hand. Audio memos of interviews and conferences, and keeping track of appointments are just a few of its many possible applications.

This personal component stereo system includes a five-disc MD changer to break new ground in recording convenience. Even complex editing tasks are a snap thanks to a motorized amplifier control panel and large-screen display.

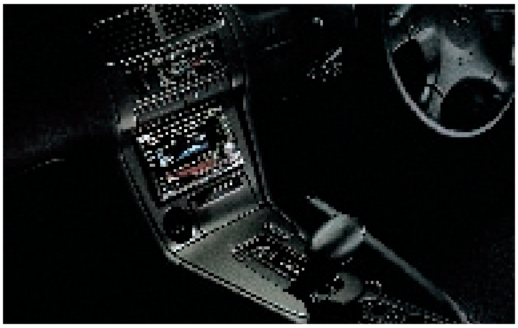
Consumers can assemble a home theater system that offers high-quality DVD pictures and sound by combining Sony's Dolby digital processor (above) and AV amplifier with a DVD-Video player and large-screen TV.

Personal Component Stereos

In November 1996, Sony unveiled the industry's first component stereo with a five-disc MD changer. It was a hit in Japan. Continuous playback is just one advantage. The component stereo also adds tremendous flexibility to recording operations. By using this stereo's five-disc CD changer, users can record selected contents from up to five CDs on a single MD, for example, or create five separate MDs.

Dolby™ Digital Processors

In February 1997, Sony introduced a Dolby digital processor in Japan. The processor has a decoder that operates with the same Dolby digital audio format used by movie theater systems and NTSC-format DVD-Video players. By faithfully reproducing sound effects just as they were created in the movie studio, this processor recreates cinema-quality sound. The unit also excels at generating three-dimensional audio sensations.



This single unit has a combined MD player, CD player, tuner, and amplifier. Additionally, a built-in 7-band graphic equalizer makes it easy to obtain the best frequency response for any kind of music.

Car Electronics

In the Japanese car audio market, models combining a CD player and cassette deck, and models with both an MD and a CD player had strong sales. Car MD players are catching on in Europe as well. Sony plans to add to its car MD player lineup to stimulate further growth in this market.

This navigation system displays traffic information transmitted by the VICS service in three formats: as text, as a diagram, or super-imposed on existing maps. Drivers can also look up destinations by address or phone number. Clear directions make even complex urban streets easy to navigate.

Japan's car navigation system market passed a new milestone with the spring 1996 start-up of the Vehicle Information Communication System (VICS). These broadcasts alert drivers to traffic jams and construction sites. This system also estimates travel time and offers information on available parking space. To capitalize on this development, Sony created a navigation system designed to accept an optional VICS reception unit. This system was well received in the Japanese market.

Review of Operations

Electronics

Televisions

Color TVs

In December 1996, Sony introduced a 28-inch wide-screen TV incorporating a newly developed Super Flat Trinitron cathode ray tube (CRT). This is the first TV for the home with a CRT that is flat over both the horizontal and vertical axes. It can generate distortion-free multi-screen views, text, and other intricate images over the entire surface. Pictures are consistently crisp and vivid, free of reflections from ambient light from any direction. Building on this achievement, the company plans to expand its line of large-screen TVs incorporating Super Flat Trinitron CRTs and introduce these models in overseas markets.

Versatile and attractive, this color TV using a Plasmatron flat display panel is compatible with a range of input signals, from NTSC and Hi-Vision broadcasts to PCs. A high-resolution picture processor and other advances ensure high picture quality.

Projection TVs and Professional-Use Projectors

In the United States, by far the largest home projection TV market, the popularity of 53-inch and 61-inch models led to higher sales. Targeting mounting consumer interest in Japan for large-screen, high-resolution viewing, Sony launched 37-inch and 50-inch LCD projection TVs. Both are equipped with MUSE (multiple sub-nyquist sampling encoding) decoders for compatibility with Hi-Vision broadcasts. These TVs can also receive Wide Clear Vision and conventional broadcasts. Market response has been favorable. The company achieved similar success in Europe with its introduction during the year of 37-inch and 50-inch LCD projection TVs.

Generating about 1.54 million dots, this 50-inch LCD projection TV yields a crisp, bright image. Despite its large screen size, this unit is only 49 centimeters deep and weighs just 43 kilograms.

Sony continues to expand its lineup of multi-scan CRT projectors and other models offering outstanding brightness and clarity for the fast-growing LCD projection market. The company plans to begin selling a large-scale professional-use projector that uses a device made by Texas Instruments Inc. of the United States to raise brightness above that of conventional models. The projector will become available in Japan and overseas markets in the summer of 1997.

Wide-screen televisions incorporating the Super Flat Trinitron CRT, which is flat over its entire surface, generate text, multi-screen images, and other pictures without distortion. The simulated picture shows a scene from Sony Pictures Entertainment's hit film Jumanji.

Plasmatron Flat Display Panels

In December 1996, the company began taking orders in Japan for color TVs that incorporate a 25-inch Plasmatron flat display panel, which boasts high brightness and contrast. This TV has a monitor section only 13.2 centimeters thick. Its brightness, high contrast, and slender profile are all the result of plasma address liquid crystal (PALC) technology, which Sony developed with U.S.-based Tektronix Inc. PALC technology uses a plasma discharge to switch the LCD elements on and off. Plasma is an electrical discharge phenomenon caused by applying an electrical voltage to a low-pressure gas. This mechanism vastly simplifies the structure of the display, enabling the fabrication of large-scale screens. Through a PALC technology sharing agreement with Sharp Corporation, a company renowned for its expertise in LCD technology, Sony plans to develop a 40-inch-class Plasmatron flat display panel with high contrast and a wide viewing angle by the fall of 1997.

This PerfecTV! digital satellite broadcast reception system has a versatile program guide for checking out upcoming shows on the service's more than 70 channels.

Digital Satellite Broadcast Reception Systems

With the inauguration of PerfecTV!, digital satellite broadcasts began hitting Japan's airwaves in October 1996. Sony introduced an easy-to-use reception system that was well-received. The company supplies similar reception systems in overseas markets as well, including models for DIRECTV in the United States and CANAL+ in Europe.

A WebTV set-top box can whisk any TV onto the Internet via a telephone line. Available in the United States since September 1996, this system offers E-mail and Web browsing capabilities.

Computer Displays and Professional-Use Monitors

Computer displays continue to post excellent results, buoyed by the popularity in overseas markets of 17-inch models. In the Japanese market, the company made headlines in December 1996 by introducing the industry's first multiscan wide-screen display. The display uses a 24-inch, high-resolution, wide Trinitron CRT with a 10:16 aspect.

Professional users depend on Sony monitors for an array of demanding requirements. Typical applications include broadcasting, education, and medical care. Ranging in size from 6 to 29 inches, professional monitors generated a favorable market response.

A wide Trinitron CRT lies at the heart of this multi-scan display. A wealth of sophisticated technology yields the high picture quality needed for desktop publishing, CAD, and many other demanding tasks.

Glasstron Personal LCD Monitor

Sony introduced the Glasstron personal LCD monitor in Japan in June 1996. The compact, lightweight unit fits easily on the head. Images can be supplied from a VTR, video CD player, and any other video source. Users are thrilled by a picture that is comparable to a 52-inch screen seen from a distance of two meters. This convenience means that individuals can enjoy dynamic images almost anywhere, even in relatively small rooms.

When linked to visual equipment, the Glasstron personal LCD monitor can produce a virtual large-screen viewing experience indoors or out. (Pictured here with a portable video CD player)

Review of Operations

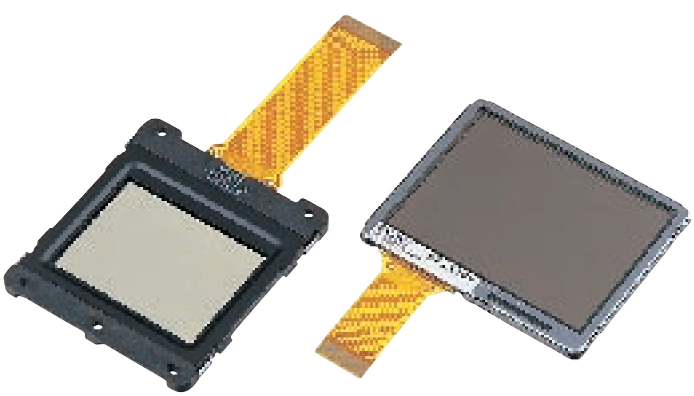
Electronics

Other Products

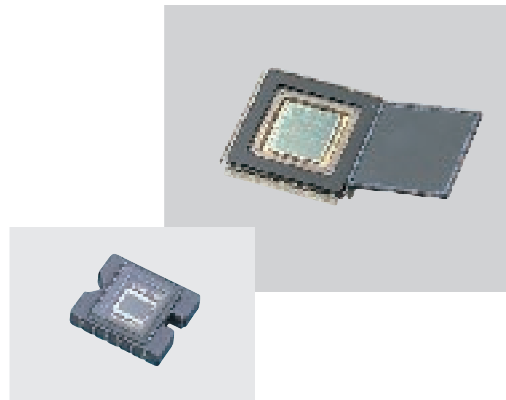
Semiconductors

Sony carries out extensive research programs targeting system LSI devices and other key components that are essential to the digitization, downsizing, energy efficiency, and versatility of electronic products of all types. Demand patterns of the year demonstrated the wisdom of this focus. Higher resolution CCDs and LSI devices for MiniDisc (MD) systems and home video game systems posted strong sales gains.

Sony is also concentrating on LCD devices, particularly those used in camcorders and projectors, two markets with excellent growth prospects. The company was first to market a low-temperature polycrystalline silicon (Poly-Si) thin-film transistor (TFT) LCD. This display offers higher resolution and, thanks to unitized driver circuitry, more compact dimensions compared with widely used amorphous silicon TFT LCDs.



(left) A Poly-Si TFT LCD with the highest brightness in its class (1.8-inch, 790,000-dot)
(right) The industry's first low-temperature Poly-Si TFT LCD (2.5-inch, 180,000-dot)



(left) An ultra-compact CCD color image sensor (1/6-inch, 250,000 pixels)
(right) The industry's first single chip MPEG2 video encoder LSI with motion estimation circuitry and an encoding controller

Electronic Components

Sony develops and manufactures a broad range of key electronic components. Major products include optical pickups for CD, MD, and DVD equipment, and spindle motors. Magnetic heads for digital VTR equipment, including DVCAM format systems, and for data storage systems are also major products.

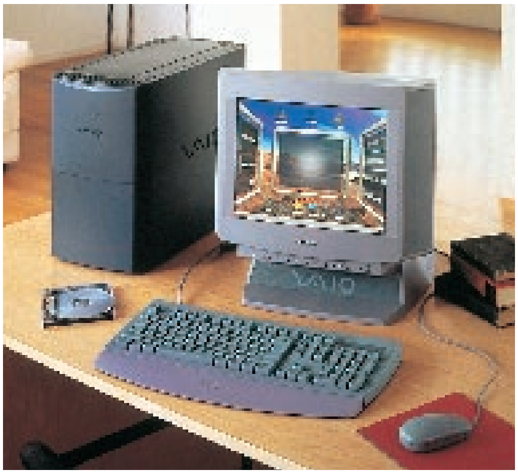
Sales of optical pickups for MD systems increased during the year. The introduction of DVD optical pickups was another highlight of the year. With two independent optical systems, the pickup is compatible with CD-R and other CD formats.

Enhancing its stature in the field of spindle motors, Sony introduced the industry's first model that does not require a sensor. This innovation will help make CD-ROM drives in notebook computers even more slender.

Displayed on the screen is a simulated picture from Sony Computer Entertainment's hit title PARAPPA THE RAPPER.

Personal Computers

Sony's home-use PCs went on sale in the United States in September 1996. These PCs combine Sony's expertise in digital audio-visual and computer peripherals with the advanced microprocessor technology of U.S.-based Intel Corporation. The following January, the company introduced in the United States a new series of PCs that have Intel Pentium® processors with MMX® technology and Sony's most advanced CD-ROM drives.



Home-use PCs, which Sony launched in the United States, feature an application menu that allows easy access to video, audio, and networking capabilities.

Computer Peripherals

Sony introduced a range of CD-ROM drives during the year, raising data transfer speeds to new heights. To support the rapid expansion of the write-once CD-R drive market in the United States and elsewhere, the company developed a unique file system that is much easier to use for consumers.

With the DVD-ROM now on the horizon, Sony in January 1997 began shipping samples of the first-ever DVD-ROM drive able to read CD-R discs.

Telecommunications Equipment

Sony makes a full line of digital cellular phones conforming to all major telecommunications standards worldwide.

A joint venture between Sony and U.S.-based Qualcomm Inc. produces and sells CDMA (Code Division Multiple Access) handsets that were jointly developed by the two companies. During the year, this venture received large orders from leading U.S. telecommunications firms.

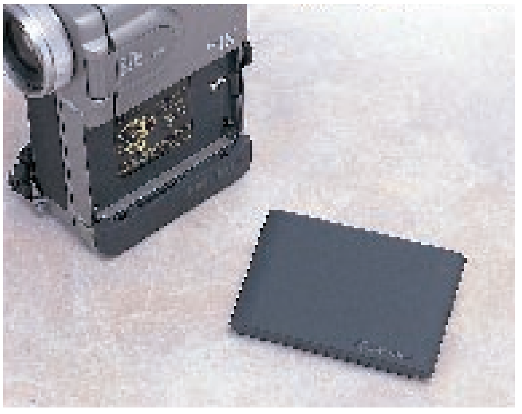
In Japan, Sony's PDC (Personal Digital Cellular) handsets with jog dial control continued to perform well. In Europe, Sony introduced an ultra-compact GSM (Global System for Mobile Communications) handset with jog dial.

Scheduled to hit the U.S. market in the second half of 1997, this CDMA handset boasts superb sound quality and low power consumption.

Lithium-Ion Batteries

Lithium-ion batteries are widely used to power such portable electronic devices as PCs, cellular phones, and audiovisual equipment. All indications point to continued growth in demand for these large capacity rechargeable batteries, which are both compact and lightweight. Sony has consistently raised production capacity in line with market expansion. The company produced its 100 millionth cell in December 1996.

A DVD-ROM drive (above) and optical pickup for DVD-ROM drives



Sony's InfoLITHIUM lithium-ion batteries developed for home-use camcorders have an internal microcomputer which calculates key data such as remaining capacity and cycle life.

PlayStation Game Console

The PlayStation game console posted another year of robust sales growth worldwide. New affordable pricing and a string of hit software introductions underpinned this accomplishment.

Among the hit titles in Japan were *Final Fantasy VII* from Square Co., Ltd., and *Popolocrois Story, Arc The Lad II*, and *PARAPPA THE RAPPER* from Sony Computer Entertainment Inc. (SCEI). Popular new games available overseas included *TEKKEN* from Namco Limited and *Crash Bandicoot* from SCEI.

Review of Operations

Entertainment

Music Group

Sony Music Entertainment Inc. (SMEI)

SMEI had the most successful year in its history, with all operating divisions exceeding the prior year's results. New and continuing global bestsellers, worldwide local artist successes, and cost reduction initiatives all contributed to SMEI's sustained growth, achieved despite the weak retail environment in the United States.

Global High Notes

Celine Dion's status as a global superstar was underscored with her *Falling Into You* recording. This release has sold more than 21 million albums since its March 1996 release, and was the biggest selling U.S. album released in 1996. *The Score* by Fugees sold an additional 10 million units for aggregate sales exceeding 11 million units. Other multimillion-selling recordings during the year included Mariah Carey's *Daydream*, Oasis' *(What's The Story) Morning Glory?*, Jamiroquai's *Travelling Without Moving*, Pearl Jam's *No Code*, Julio Iglesias' *Tango*, Rage Against the Machine's *Evil Empire*, *It Was Written* by NAS, Gloria Estefan's *Destiny*, Babyface's *The Day*, Journey's *Trial By Fire*, Michael Jackson's *HIStory*, and Aerosmith's *Nine Lives*.

The Score*, Fugees' second album, won two Grammy Awards: Best Rap Album and Best R&B Performance by a Duo or Group for its single, "Killing Me Softly (With His Song)."*

Since her 1990 debut, Mariah Carey has sold more than 80 million records worldwide, and is the biggest selling female artist of the 1990s.

Albums selling one million or more units included Celine Dion's *Live à Paris*, *The Colour of My Love* and *D'Eux*, Bone Thugs-N-Harmony's *E. 1999 Eternal*, the *Kushelrock 10* compilation, and *The Mirror Has Two Faces* soundtrack, and new releases by Alice in Chains, Michael Bolton, Roberto Carlos, Martinho Da Vila, Neil Diamond, Alejandro Fernandez, Manic Street Preachers, Ricky Martin, Meja, The Offspring, The Presidents of the United States of America, Shakira, Skank, Luther Vandross, Harlem Yu, and ZeZe di Camargo y Luciano.

Releases for the fiscal year ending March 1998 are projected to include new albums by Michael Bolton, Brownstone, Mariah Carey, Celine Dion, Wynton Marsalis, and Oasis.

Artist and Label Development

SMEI launched Crave, a joint venture label with Mariah Carey, and created Sony Music Independent Labels, an operating framework

Celine Dion won Album of the Year and Best Pop Album Grammy Awards for her Falling Into You *album. Its single, "Because You Loved Me," won a Best Song Grammy Award.*

designed to support newly formed labels and encompassing Crave, 550 Music, WORK, and future stand-alone labels.

Debut albums by 3T, Ghostface Killah, Ginuwine, Kula Shaker, Amanda Marshall, and Maxwell, and new releases by developing artists (London) Suede, KorN, and silverchair, each sold one million or more units.

Oasis and their second album, (What's The Story) Morning Glory? *were the biggest selling band and album of 1996 in the United Kingdom.*

Country Music

Sony Music Nashville bestsellers included releases by Mary Chapin Carpenter, Wade Hayes, Ty Herndon, Rick Trevino, Patty Loveless, Collin Raye, and Ricochet. Patty Loveless was named Top Female Vocalist by the Academy of Country Music and Female Vocalist of the Year by the Country Music Association.

International Growth

Sony Music International (SMI) increased sales throughout its territories. This performance was paced by the worldwide successes of SMEI's global artists and the successful development of local repertoire, including international bestsellers by Shakira (Colombia), silverchair (Australia), Roberto Carlos, Martinho Da Vila, Skank, and ZeZe di Camargo y Luciano (Brazil), Min-Jong Kim and K2 (Korea), Alejandro Fernandez and Ricky

Martin (Mexico), Meja (Sweden), CoCo Lee, Mindy Quah, and Harlem Yu (Taiwan), and Jamiroquai (UK).

A worldwide licensing and distribution agreement was signed with the new UK label Independiente, and SMI's expansion into new territories continued with the start-up of wholly owned subsidiaries in India and Indonesia and the further development of subsidiaries in the Philippines, Poland, and South Africa.

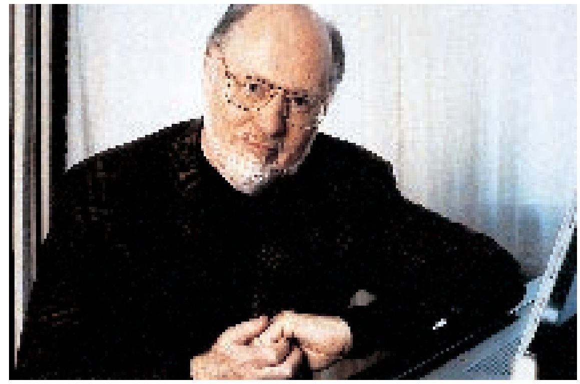
Classical Movements

Sony Classical became the top classical label in the United States, led by the success of its *Summon the Heroes*, *Appalachia Waltz*, *Under the Spanish Sky*, *In Gabriel's Garden*, and *The Mozart Sessions* projects. It launched the Masterworks Heritage series, featuring remastered landmark recordings, and signed to exclusive contracts composer Tan Dun, conductor Andrew Parrott, pianist Arcadi Volodos, singers Susan Graham and Angelika Kirchschlager, and violinists Joshua Bell, Hilary Hahn, and Mark O'Connor.

Collin Raye's "On the Verge" single from his third album, I Think About You, *is the fastest rising single in Epic Nashville's history.*

Music Publishing

Sony/ATV Music Publishing achieved strong results, signing exclusive, worldwide administration agreements with Children's Television Workshop, New Line Cinema, Sunbow Productions, and the RKO, Hyperion Films, and Shooting Gallery film studios. Worldwide administration deals were signed with top pop songwriters Martin Page and Charles Fox, and co-publishing agreements were struck with Cheap Trick and Chucky Thompson.



Sony Classical composer John Williams wrote, recorded and performed "Summon the Heroes," the official Centennial Theme of the 1996 Olympic Games.

Sony Music Entertainment (Japan) Inc. (SMEJ)

SMEJ implemented a new internal organization during the year to respond to the challenges posed by a rapidly changing marketplace. The main objective was to speed decision-making by creating a flatter organization and giving more opportunities to younger staff members. To foster the long-term development of new artists, SMEJ revised its policy for releasing new titles. This reduced the number of new releases considerably, resulting in generally weak record sales for the year. The year was highlighted by smash albums from JUDY AND MARY and Dreams Come True, along with highly successful releases from Puffy, one of SMEJ's new artists.

THE POWER SOURCE *by JUDY AND MARY and* amiyumi *by Puffy achieved strong sales in Japan.*

Review of Operations

Entertainment

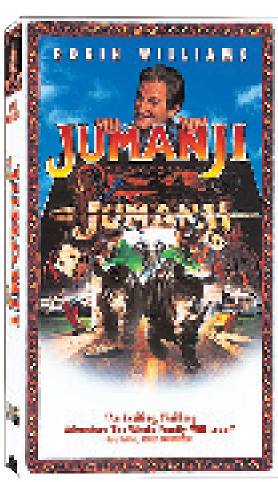
Pictures Group

In November 1996, Sony Pictures Entertainment (SPE) named a new senior management team led by President and Chief Operating Officer John Calley, one of Hollywood's most highly respected and experienced executives. The new team has launched several initiatives designed to build on SPE's existing strengths, generate new competitive capabilities and transform the company into a higher-margin, premium valued global entertainment enterprise. These initiatives draw upon one of SPE's most valuable and renewable assets — a filmed entertainment library of more than 3,500 motion pictures and 35,000 television episodes.

Show me the Oscar©: Five Academy Award© nominations, including one for Best Picture, added momentum to SPE's Jerry Maguire, *which has grossed over $250 million worldwide. Cuba Gooding, Jr. won the 1996 Oscar for Best Supporting Actor.*

Enhancing SPE's Motion Picture Momentum

After three quarters of disappointing box office results, SPE's motion picture business ended the year with the blockbuster romantic comedy *Jerry Maguire*, which has grossed $150 million at the U.S. box office. The performance of SPE's early 1997 slate, including *Fools Rush In*, *Donnie Brasco*, and Columbia/Castle Rock's *Absolute Power*, contributed to renewed momentum in SPE's motion picture business. Carryover profits from the international box office and home video performances of earlier hits such as *Sense and Sensibility* and *Jumanji* underscored the multiple revenue opportunities for quality products.



CTHV's sell-through release of Jumanji *emphasizes the continued value chain of motion pictures beyond U.S. and international theatrical releases.*

In the new organization structure, SPE's motion picture companies have shifted their development and production operations to focus on three distinct categories of motion pictures — franchise films, star-driven movies, and lower-budget motion pictures. SPE's 1997/98 release slate features several films with franchise potential such as *Men In Black*, *Starship Troopers,* and *Godzilla*. All have the potential to create character licensing, retail, sequel, and other business opportunities throughout the Sony family. Fresh off the success of *Jerry Maguire*, the movie division is also focusing on star-driven motion pictures featuring actors with proven global appeal.

Columbia TriStar Home Video (CTHV), recently integrated into SPE's movie division, achieved worldwide success in both the home video rental and direct-to-sales markets during the year. CTHV's *Jumanji* was the biggest home video release in SPE's history. *Matilda* and *Fly Away Home* were also direct-to-sales successes.

Columbia TriStar Television Distribution's fall 1996 syndication launch of the award-winning comedy series Mad About You *brought SPE a U.S. off-network distribution hit for the second consecutive year.*

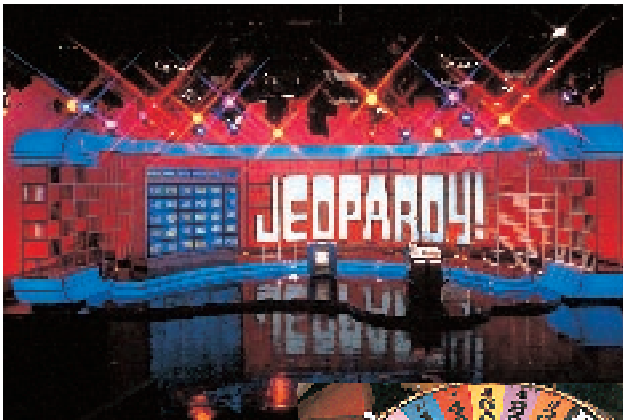
Global Television Expansion

SPE's television division expanded its successful content creation business into premium value opportunities throughout the global marketplace during the year, exploring new ways to reach a growing worldwide customer base. SPE now produces original television programming in seven languages around the world. In addition, SPE distributes a mix of motion pictures and television programming through its investments in more than a dozen new channels in Europe, Asia, Latin America, and Australia. SPE's filmed entertainment now reaches more than a billion viewers around the globe through its co-production and distribution ventures.

SPE's television group continues to increase the number of local co-productions throughout the international arena, including original Mandarin programming in China and Hindi programming in India.

The value of SPE's motion picture and television library assets was highlighted during the year when the company became the first major Hollywood studio to enter a long-term filmed entertainment licensing agreement with Beta Taurus Television, a top German broadcaster.

SPE's global television expansion is complemented by its strength in U.S. network prime-time, daytime and game show programming. SPE's television division will produce 32 programs in all categories for the 1997/98 U.S.



Television's top two game shows, Jeopardy! *and* Wheel of Fortune*, have been renewed through the 2002 season.*

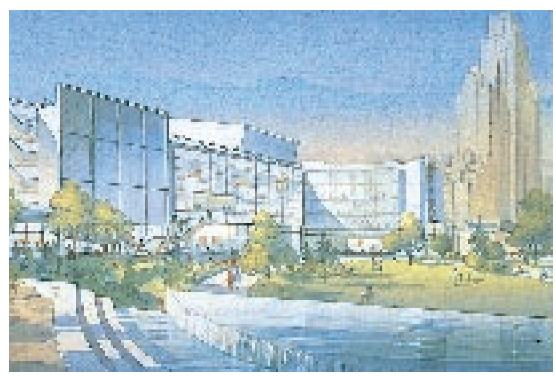
television season. In fall 1996, SPE sold the hit comedy *Mad About You* to nearly all 230 major television stations across the United States, joining the number one comedy *Seinfeld* as SPE's second syndication sales success in two years.

SPE's game shows *Wheel of Fortune* and *Jeopardy!* have set the industry standard for the past decade and have been renewed through the 2002 season. SPE also maintained its leadership in daytime programming with top-rated soaps such as *The Young & the Restless* and *Days of Our Lives*. In February 1997, SPE joined forces with Procter & Gamble, another daytime programming leader, to produce new serials for the U.S. market as well as SPE's growing array of international channels.

Sony Retail Entertainment Growth

Sony Retail Entertainment (SRE) continued to expand during the year. In December 1996, SRE marked the start of construction on Metreon, a Sony entertainment center, at Yerba Buena Gardens in San Francisco. Metreon is scheduled to open in late 1998. The 350,000 square foot center will include a 15 screen Sony Theatres complex, a 3D SONY•IMAX® Theatre, a Sony Style store, interactive attractions, restaurants, and retail outlets.

Loews Theatres added sites and upgraded locations to create a total of 66 new screens and the second Magic Johnson Theatre complex was unveiled in Atlanta, Georgia. Loews Theatres currently operates a total of 980 screens in 144 locations throughout 16 states under the Loews Theatres, Sony Theatres, Magic Johnson Theatres, and Star Theatres banners.



Metreon, a Sony entertainment center in San Francisco, will present, under one roof, a wide variety of entertainment options and the many wonders of Sony technology.

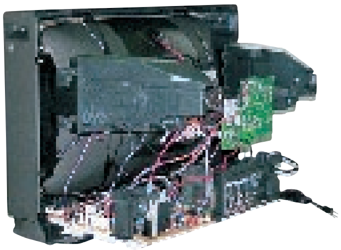
Technology meets commerce: SPE's High Definition Center and the Academy of Motion Picture Arts and Sciences collaborated on the fully digital restoration of Frank Capra's 1928 silent film The Matinee Idol*, underscoring the renewable value of SPE's vast filmed entertainment library. The restoration showcased Sony's unique ability to integrate hardware and software.*

Concerned for the Environment

Recognizing that environmental protection is one of the most pressing issues facing mankind today, Sony incorporates a sound respect for nature in all of its business activities. Based on this philosophy, Sony's Environmental Conservation Committees in Japan, the United States, Europe, and Asia have devised action plans to guide environmental activities in conformity with local needs and applicable regulations. A key focus throughout the Sony Group worldwide is on achieving certification under international ISO-14001 standards for environmental management. As of May 1997, 39 Sony production facilities had obtained certification. The goal is for all production facilities to be certified by March 31, 1998.

Reducing the Environmental Impact of Products

Sony is striving to reduce any negative impact its products may have on the environment, from the time they are used until their disposal. Comprehensive product assessments are a means of realizing this goal. Established during the year, the Greenplus 2000 project represents a new framework for this drive. The objective of Greenplus 2000 is to incorporate environmental considerations into the planning of every Sony product by the year 2000. Product design is another thrust. Here, the company is emphasizing areas such as energy efficiency, the decreased use of materials with high environmental impact, and shorter disassembly times.



Designed using fewer parts, this color TV is energy efficient and easy to disassemble.

Promoting a New Recycling Technology

Sony is working at the design level to support greater recycling of its products, such as using recyclable materials, labeling material properties, limiting the number of parts used, and adopting structures that are easily dismantled. During the year, Sony developed a technique which enables the plastic from video cassette shells or other products to be used as a condensing agent in water-treatment applications.

Sony developed a technique that uses limonene, a substance extracted from citrus rinds, to dissolve styrene foam for reuse as polystyrene. Working with authorized dealers in the Tokyo area, the company began collecting and recycling waste styrene foam in October 1996.

Regional Activities

In the United States, Sony Electronics Inc. is participating in the U.S. Environmental Protection Agency's Energy Star Buildings Program. This requires that the company promote greater energy efficiency at all its offices and plants as well as undertake full-scale recycling efforts. In Europe, Sony International (Europe) GmbH is active in CARE Vision 2000, a EUREKA (European Research Coordination Action) environmental research project. As part of this program, Sony International (Europe) handled administration for the CARE Innovation '96 international congress held in November 1996. Staff members from Sony offices in Asia represented the company at an international conference to develop ISO-14000 standards.

Involved in the Community

Sony carries out a wide range of activities to contribute to communities in the countries and regions in which the company is active.

Promoting Educational Activities

For almost 40 years, the Sony Foundation of Science Education has been presenting awards to primary and junior high schools in Japan to encourage creative methods for teaching science. The Foundation started a contest in 1996 in which junior high school students make video programs in English to describe student life to their counterparts overseas. Sony also runs education programs in Canada, China, Indonesia, Malaysia, and the United States. In the United States, Sony Electronics Inc. and Sony Corporation jointly conduct the Sony Student Project Abroad program. Every year since 1990, this annual education trip to Japan has provided 50 U.S. high school students with cross-cultural experiences.

In China, Sony has run a scholarship program for 100 students from 10 universities in Beijing every year since 1994.

Supporting Arts and Culture

In Japan, the Sony Music Foundation sponsors a variety of musical events, including the All Japan Intercollegiate Orchestra Festival, and promotes the widespread enjoyment of classical music. To celebrate its 50th anniversary in 1996, Sony invited teenagers to attend a performance of Beethoven's Symphony No. 9 by the Berlin Philharmonic Orchestra at an affordable price. To mark a century of relations between Japan and Chile, Sony Chile Ltda. supported the renovation of Gabriela Mistral Mural, which bears the name of the first Chilean to win the Nobel Prize for literature. Sony España, S.A. provides support for young musicians every year. In the United States, Sony Music Entertainment Inc. (SMEI) supported the Isaac Stern Fund to provide for the refurbishment and maintenance of Carnegie Hall.

Advancing Social Welfare and Medicine

In Japan, Sony Corporation helps disabled people become self-sufficient by donating video editing systems to work centers and sending employees to serve as instructors. Sony Corporation has been supporting the Oita International Wheelchair Marathon every year since 1985. Many volunteers from Sony Oita Corporation and other nearby Sony companies provide assistance. In the United States, SMEI's wide-ranging support for the National Center for Missing and Exploited Children includes resources and Sony imaging technology. In the United Kingdom, Sony United Kingdom Limited (SUKL) provides support for a summer camp for disabled children.

Participating in Local Communities

The Sony Group responded quickly to a devastating oil spill in the Sea of Japan in January 1997. Volunteers from Sony Neagari Corporation and Sony Inazawa Corporation helped patrol beaches and remove oil. In the United Kingdom, volunteers from SUKL provide assistance for operas, marathons, and other charitable events. Additionally, donations from SUKL employees help support community facilities.

Volunteers from Sony Pictures Entertainment planted seedlings at Camp Ronald McDonald in northern California that is host to children battling cancer.

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Founder and Honorary Chairman
Akio Morita

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Norio Ohga

Vice Chairman and Representative Director
Tsunao Hashimoto

President and Representative Director, Chief Operating Officer
Nobuyuki Idei

Executive Deputy Presidents and Representative Directors
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Kozo Ohsone
Yoshiyuki Kaneda
Tamotsu Iba

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Shizuo Takashino
Takeo Eguchi
Shigeyuki Ochi
Toshiharu Sawada
Akiyoshi Kawashima

Kenichi Kamiya
(Advisor of The Sakura Bank, Limited)
Peter G. Peterson
(Chairman of The Blackstone Group)

Standing Statutory Auditors
Nobuo Kanoi
Akihisa Ohnishi
Yoshisuke Mohri

Statutory Auditor
Kazuaki Morita

(As of March 31, 1997)

ANALYSIS OF OPERATIONS

For the fiscal year ended March 31, 1997, Sony's consolidated **sales and operating revenue** (herein referred to as "sales") increased 23.3 percent compared with the previous year, to ¥5,663.1 billion ($45,670 million).

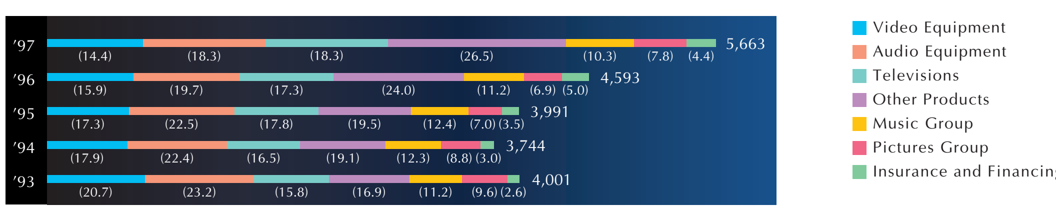
Sony's sales in Japan rose 15.3 percent to ¥1,590.8 billion ($12,829 million). Televisions and Other Products, which includes the home video game business, were the most important contributors. Sony's overseas sales were higher in both the Electronics Business and Entertainment Business. As a result, sales were up 30.1 percent to ¥1,639.3 billion ($13,220 million) in the United States, 23.8 percent to ¥1,304.5 billion ($10,520 million) in Europe, and 25.6 percent to ¥1,128.5 billion ($9,101 million) in Other Areas.

Impact of Foreign Exchange Trends

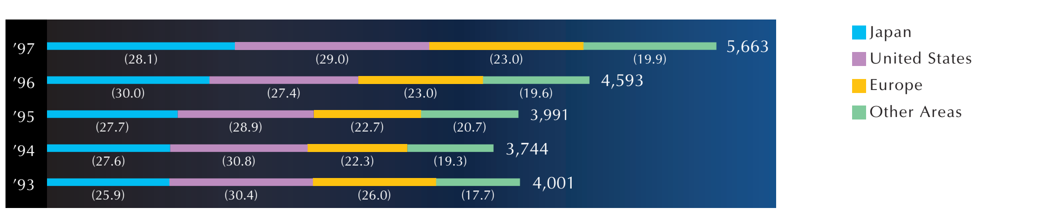
During the year under review, the U.S. dollar, German mark and British pound accounted for approximately 67 percent, 5 percent, and 5 percent, respectively, of Sony's overseas sales. Approximately 97 percent of overseas sales were denominated in foreign currencies. During the year, the yen depreciated approximately 15 percent against the U.S. dollar, 7 percent against the German mark, and 16 percent against the British pound, each in terms of average rate, compared with the previous year. It is estimated that sales would have been approximately ¥520 billion ($4,194 million) lower than the reported figure, if the value of the yen had remained the same as in the previous year.

To minimize the adverse effects of foreign exchange fluctuations on its financial results, Sony promotes the localization of material and parts procurement, design, and manufacturing operations outside Japan. During the year under review, overseas activities represented approximately 50 percent of total manufacturing output in Sony's Electronics Business. This

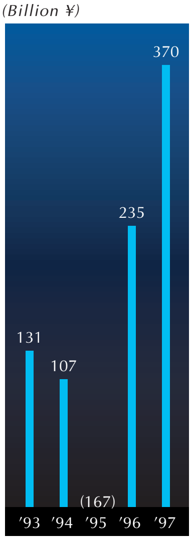
Sales by Business Group
(Percent of Consolidated Sales)
(Billion ¥, %)



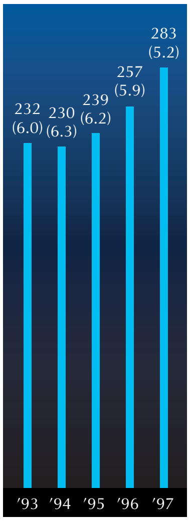
Sales by Geographic Area
(Percent of Consolidated Sales)
(Billion ¥, %)



Operating Income (Loss)
(Billion ¥)



R&D Expenses (Percent of Consolidated Sales*)
(Billion ¥, %)



**Excluding Insurance and financing revenue*

figure is expected to continue to rise. Sony employs foreign exchange forward contracts and foreign currency option contracts to hedge against foreign exchange risks that arise from export and import transactions of Sony Corporation and its subsidiaries. In addition, interest rate currency swap agreements are used in connection with certain foreign currency denominated borrowings and debt.

Cost of sales increased 22.2 percent to ¥3,930.1 billion ($31,694 million), and the ratio of cost of sales to consolidated sales improved 1.2 percentage points, to 72.6 percent. **Research and development expenses** rose 9.8 percent to ¥282.6 billion ($2,279 million), but as a percentage of consolidated sales declined 0.7 percentage point, to 5.2 percent.

Selling, general and administrative expenses rose 23.4 percent to ¥1,132.2 billion ($9,131 million). These expenses as a percentage of consolidated sales improved 0.1 percentage point, to 20.9 percent.

Figures in the above two paragraphs do not include the revenue and expenses of Insurance and financing.

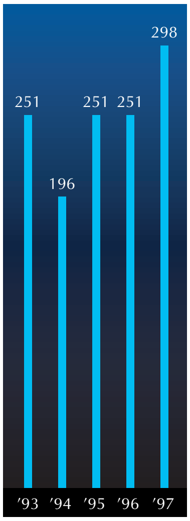
Insurance and financing expenses were up 3.6 percent to ¥230.5 billion ($1,859 million). This is mainly attributable to higher future insurance policy benefits due to growth in Sony's life insurance business. As a percentage of insurance and financing revenue, these expenses improved 4.8 percentage points, to 91.5 percent.

Operating income grew by 57.4 percent to ¥370.3 billion ($2,987 million), and the ratio of operating income to consolidated sales increased 1.4 percentage points, to 6.5 percent.

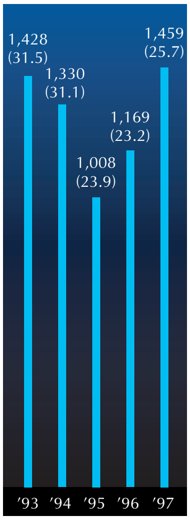
Other income was up 40.9 percent to ¥92.6 billion ($747 million), while **other expenses** decreased 7.6 percent to ¥150.5 billion ($1,214 million). These changes are primarily attributable to the foreign exchange gain, net, posted during the year under review, following a substantial foreign exchange loss, net, in the previous year. Foreign exchange gains and losses mainly arise from the difference between the value of foreign currency denominated sales and imports when converted into yen using prevailing exchange rates and the value at settlement of these sales and imports. The rates used for settlement are primarily based on foreign exchange forward contracts and foreign currency option contracts that Sony employs to hedge risks from exchange rate fluctuations. During the year under review, the exchange rates of the yen at settlement of foreign currency denominated sales were about the same as prevailing exchange rates. However, yen exchange rates for settlement of imports were higher than prevailing rates, resulting in foreign exchange gains.

Among other income and expenses, the balance of interest and dividend income less interest expenses resulted in net interest payments of ¥51.5 billion ($415 million). This is ¥2.4 billion more than in the previous year, mainly because of the yen's depreciation.

Capital Expenditures
(Billion ¥)



Stockholders' Equity
(Percent of Total Assets)
(Billion ¥, %)



Income before income taxes was up 126.1 percent to ¥312.4 billion ($2,520 million). Income taxes as a percentage of income before income taxes declined 3.4 percentage points, to 52.4 percent.

Net income increased 157.1 percent to ¥139.5 billion ($1,125 million), and represented 2.5 percent of consolidated sales, up 1.3 percentage points from the previous year. **Net income per share** rose from ¥134.0 to ¥309.2 ($2.49) (refer to Note 2 of Notes to Consolidated Financial Statements). The return on average stockholders' equity increased 5.6 percentage points, to 10.6 percent.

Segment Information

The following discussion is based on segment information (refer to Note 19 of Notes to Consolidated Financial Statements). The classification of the sales by geographic area differs from that of sales described previously (refer to Note 2 of Composition of Sales and Operating Revenue by Geographic Area and Business Group).

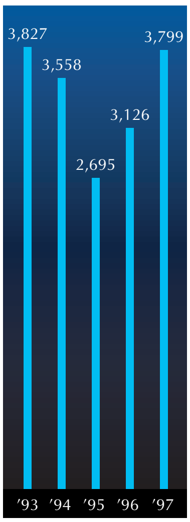
By Industry Segment, sales in the Electronics Business grew 23.6 percent. Backed by the rise in sales and the yen's depreciation, operating income surged 59.2 percent. Operating income as a percentage of sales in the Electronics Business improved by 1.6 percentage points, to 6.9 percent.

Sales in the Entertainment Business were up 24.0 percent, and operating income climbed 20.8 percent. As a percentage of sales in the segment, operating income declined by 0.2 percentage point to 6.3 percent. Strong results outside Japan were behind higher operating income in the Music Group. The Pictures Group also posted an increase in operating income, primarily due to strength in the home video and television businesses, and to licensing agreements involving Sony Pictures Entertainment's filmed entertainment library.

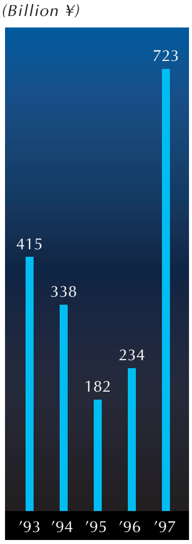
In Insurance and financing, the strong performance of the life insurance business was mainly responsible for a 9.0 percent rise in revenue and a large 153.6 percent increase in operating income.

By Geographic Area, Sony generated higher sales in all areas. In Japan, sales rose 12.9 percent. Operating income was up by a substantial 75.8 percent, mainly the result of a strong performance in the Electronics Business, including higher profitability of exports as the yen weakened. As a percentage of sales in Japan, operating income rose 2.8 percentage points, to 7.6 percent. In the United States, sales increased 31.9 percent, but operating income declined 4.5 percent and fell 0.7 percentage point as a percentage of sales. This decline is primarily due to substantial losses incurred at a semiconductor manufacturing equipment subsidiary. In Europe, sales increased 24.7 percent and operating income advanced 45.2 percent, representing 6.2 percent of sales, 0.9 percentage point more than in the previous year. In Other Areas, sales were up 20.8 percent and operating income rose 25.3 percent, representing 4.8 percent of sales, 0.1 percentage point more than in the previous year.

Stockholders' Equity
Per Share
(¥)



Net Cash Provided by
Operating Activities
(Billion ¥)



Capital Expenditures

Capital expenditures during the year under review increased 18.7 percent to ¥298.1 billion ($2,404 million). Major components of this figure are semiconductor-related expenditures of approximately ¥50 billion ($403 million) and capital expenditures in the field of displays. In the fiscal year ending March 31, 1998, Sony plans to increase semiconductor-related capital expenditures for next-generation products and other requirements. The company also plans to expand manufacturing facilities for lithium-ion batteries and other products. As a result, capital expenditures are expected to exceed the level of the year under review.

FINANCIAL POSITION AND LIQUIDITY

Total assets at the end of the year were ¥5,680.3 billion ($45,809 million), 12.6 percent more than the ¥5,045.7 billion at the previous year-end. One reason was the significantly lower value of the yen in relation to foreign currencies at the end of the year compared with the previous year-end. An increase in operating assets of Sony Life Insurance Co., Ltd., which recorded higher insurance premiums, also contributed to the rise in assets.

Total short- and long-term borrowings and debt decreased ¥202.0 billion to ¥1,427.9 billion ($11,515 million). This was the result of an improvement in Sony's cash flows and the conversion of convertible bonds, offset to some degree by an increase in foreign currency denominated liabilities caused by the yen's depreciation.

Stockholders' equity grew by ¥290.3 billion to ¥1,459.4 billion ($11,770 million). The ratio of stockholders' equity to total assets increased by 2.5 percentage points, from 23.2 percent to 25.7 percent. Based on the number of shares outstanding at March 31, 1997, **stockholders' equity per share** rose to ¥3,798.76 ($30.64) from ¥3,125.57 at the previous year-end.

Cash Flows

In **cash flows from operating activities**, depreciation and amortization rose 17.3 percent to ¥266.5 billion ($2,149 million). This figure includes the amortization of goodwill and intangibles as well as the amortization of deferred insurance acquisition costs. Net cash provided by operating activities grew to ¥723.1 billion ($5,832 million), up significantly from ¥234.2 billion in the previous year, primarily due to the increase in net income and the decrease in inventories.

In **cash flows from investing activities**, net cash used in investing activities amounted to ¥518.0 billion ($4,177 million), up from ¥371.0 billion in the previous year. This increase was mainly attributable to growth in payments for purchases of fixed assets and marketable securities.

In **cash flows from financing activities**, net cash used in financing activities totaled ¥247.5 billion ($1,996 million), mainly due to a significant decrease in short-term borrowings.

Due to the above factors, and including the effect of exchange rate changes, there was a **net decrease in cash and cash equivalents** of ¥30.8 billion ($249 million), resulting in a balance of ¥428.5 billion ($3,456 million) at year-end.

Quarterly Financial and Stock Information

Sony Corporation and Consolidated Subsidiaries
(Unaudited)
Year ended March 31

	Yen in billions except per share amounts								Dollars in millions except per share amounts
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		4th Quarter
	1996	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	**1997**
Sales and operating revenue	¥895.5	**¥1,172.2**	¥1,159.5	**¥1,358.5**	¥1,350.6	**¥1,666.8**	¥1,186.9	**¥1,465.7**	**$11,820.1**
Operating income	17.8	**55.3**	64.8	**80.6**	117.3	**164.5**	35.4	**69.9**	**563.8**
Interest income (expense), net	(9.7)	**(12.6)**	(12.8)	**(13.5)**	(14.9)	**(13.9)**	(11.6)	**(11.5)**	**(93.0)**
Foreign exchange gain (loss), net	30.0	**(0.6)**	(32.4)	**7.6**	(21.7)	**5.8**	(1.4)	**5.3**	**42.8**
Income before income taxes	29.4	**43.8**	18.6	**65.7**	74.0	**147.4**	16.3	**55.6**	**448.4**
Income taxes	20.2	**25.9**	8.4	**28.0**	32.9	**67.8**	15.6	**41.8**	**337.3**
Net income	7.5	**17.1**	8.6	**34.6**	37.1	**75.4**	1.0	**12.3**	**99.5**
Net income per share	¥ 19.3	**¥ 38.2**	¥ 22.0	**¥ 76.0**	¥ 90.3	**¥ 163.8**	¥ 3.7	**¥ 27.9**	**$ 0.23**
Depreciation and amortization*	¥ 49.1	**¥ 59.7**	¥ 56.0	**¥ 61.8**	¥ 59.7	**¥ 66.9**	¥ 62.5	**¥ 78.2**	**$ 630.4**
Capital expenditures (additions to fixed assets)	62.7	**67.5**	64.5	**76.6**	48.0	**57.3**	76.0	**96.7**	**780.2**
R&D expenses	61.5	**62.8**	65.9	**74.6**	62.1	**67.1**	67.8	**78.0**	**629.1**
Tokyo Stock Exchange price per share of Common Stock:									
High	¥4,320	**¥ 7,310**	¥ 5,630	**¥ 7,260**	¥ 6,230	**¥ 7,700**	¥ 7,030	**¥ 9,180**	**$ 74.03**
Low	3,730	**6,350**	4,010	**6,680**	4,570	**6,720**	6,040	**7,250**	**58.47**
New York Stock Exchange price per American Depositary Share:									
High	$ 52 1/2	**$ 66 5/8**	$ 58 1/4	**$ 66 1/4**	$ 61 1/2	**$ 67 7/8**	$ 66 1/4	**$ 74 1/4**	
Low	45 7/8	**59**	48 3/4	**61 1/2**	45 1/2	**58 7/8**	57 3/8	**63 3/8**	

** Including amortization of deferred insurance acquisition costs*

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥124=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1997, as described in Note 3 of Notes to Consolidated Financial Statements.

2. Net income per share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents.

3. During the fiscal year ended March 31, 1996, the Company changed its method of accounting for assessing the carrying values of intercompany foreign currency commitments to comply with the Emerging Issues Task Force Issue No. 95-2. This did not have a material impact on results of operations for the years ended March 31, 1996 and 1997.

4. Refer to Note 2 of Notes to Consolidated Financial Statements, regarding the accounting policy for the earnings per share computation.

Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts					Dollars in thousands except per share amounts
	1993	1994	1995	1996	**1997**	**1997**
FOR THE YEAR						
Sales and operating revenue	¥4,001,270	¥3,744,285	¥3,990,583	¥4,592,565	**¥5,663,134**	**$45,670,435**
Operating income (loss)	130,640	106,962	(166,640)	235,324	**370,330**	**2,986,532**
Income (loss) before income taxes	92,561	102,162	(220,948)	138,159	**312,429**	**2,519,589**
Income taxes	49,794	78,612	65,173	77,158	**163,570**	**1,319,113**
Net income (loss)	36,260	15,298	(293,356)	54,252	**139,460**	**1,124,677**
Per share:						
Net income (loss)	¥ 92.2	¥ 42.1	¥ (696.9)	¥ 134.0	**¥ 309.2**	**$ 2.49**
Cash dividends	50.0	50.0	50.0	50.0	**55.0**	**0.44**
Depreciation and amortization*	¥ 275,671	¥ 242,458	¥ 226,984**	¥ 227,316	**¥ 266,532**	**$ 2,149,452**
Capital expenditures (additions to fixed assets)	251,117	195,937	250,678	251,197	**298,078**	**2,403,855**
R&D expenses	232,150	229,877	239,164	257,326	**282,569**	**2,278,782**
AT YEAR-END						
Net working capital	¥ 367,009	¥ 616,089	¥ 537,739	¥ 816,387	**¥ 843,596**	**$ 6,803,194**
Stockholders' equity	1,428,219	1,329,565	1,007,808	1,169,173	**1,459,428**	**11,769,581**
Stockholders' equity per share	¥ 3,827.39	¥ 3,557.57	¥ 2,695.31	¥ 3,125.57	**¥ 3,798.76**	**$ 30.64**
Total assets	¥4,529,830	¥4,269,885	¥4,223,920	¥5,045,725	**¥5,680,342**	**$45,809,210**
Average number of shares outstanding during the year (thousands of shares)	417,687	417,454	417,665	421,973	**458,992**	
Number of shares issued at year-end (thousands of shares)	373,158	373,728	373,911	374,068	**384,185**	

** Including amortization of deferred insurance acquisition costs*
*** Excluding write-off of goodwill*

Notes:
1. *U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥124=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1997, as described in Note 3 of Notes to Consolidated Financial Statements.*
2. *Net income (loss) per share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents.*
3. *During the fiscal year ended March 31, 1996, the Company changed its method of accounting for assessing the carrying values of intercompany foreign currency commitments to comply with the Emerging Issues Task Force Issue No. 95-2. This did not have a material impact on results of operations for the years ended March 31, 1996 and 1997.*
4. *The consolidated results for the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion in the Pictures Group (refer to Note 4 of Notes to Consolidated Financial Statements) and losses in the Pictures Group of approximately ¥50 billion arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.*
5. *Refer to Note 2 of Notes to Consolidated Financial Statements, regarding the accounting policy for the earnings per share computation.*

Composition of Sales and Operating Revenue by Geographic Area and Business Group

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions					Dollars in thousands
	1993	1994	1995	1996	**1997**	**1997**
SALES AND OPERATING REVENUE BY GEOGRAPHIC AREA						
Japan	¥1,035,224	¥1,033,273	¥1,105,152	¥1,379,804	**¥1,590,820**	**$12,829,193**
	25.9%	27.6%	27.7%	30.0%	**28.1%**	
United States	1,215,954	1,154,454	1,152,081	1,259,926	**1,639,334**	**13,220,435**
	30.4	30.8	28.9	27.4	**29.0**	
Europe	1,039,802	832,751	905,416	1,054,010	**1,304,491**	**10,520,089**
	26.0	22.3	22.7	23.0	**23.0**	
Other Areas	710,290	723,807	827,934	898,825	**1,128,489**	**9,100,718**
	17.7	19.3	20.7	19.6	**19.9**	
Sales and operating revenue	¥4,001,270	¥3,744,285	¥3,990,583	¥4,592,565	**¥5,663,134**	**$45,670,435**
SALES AND OPERATING REVENUE BY BUSINESS GROUP						
Video Equipment	¥ 828,366	¥ 668,537	¥ 691,116	¥ 731,097	**¥ 816,582**	**$ 6,585,339**
	20.7%	17.9%	17.3%	15.9%	**14.4%**	
Audio Equipment	928,010	840,723	898,507	905,441	**1,034,769**	**8,344,911**
	23.2	22.4	22.5	19.7	**18.3**	
Televisions	633,723	617,901	708,574	794,767	**1,036,010**	**8,354,919**
	15.8	16.5	17.8	17.3	**18.3**	
Other Products	676,059	713,743	777,031	1,098,849	**1,500,378**	**12,099,823**
	16.9	19.1	19.5	24.0	**26.5**	
Total Electronics Business	3,066,158	2,840,904	3,075,228	3,530,154	**4,387,739**	**35,384,992**
	76.6	75.9	77.1	76.9	**77.5**	
Music Group	446,506	461,752	494,931	512,908	**584,960**	**4,717,419**
	11.2	12.3	12.4	11.2	**10.3**	
Pictures Group	384,534	327,748	281,677	318,305	**438,505**	**3,536,331**
	9.6	8.8	7.0	6.9	**7.8**	
Total Entertainment Business	831,040	789,500	776,608	831,213	**1,023,465**	**8,253,750**
	20.8	21.1	19.4	18.1	**18.1**	
Insurance and Financing	104,072	113,881	138,747	231,198	**251,930**	**2,031,693**
	2.6	3.0	3.5	5.0	**4.4**	
Sales and operating revenue	¥4,001,270	¥3,744,285	¥3,990,583	¥4,592,565	**¥5,663,134**	**$45,670,435**

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥124=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1997, as described in Note 3 of Notes to Consolidated Financial Statements.

2. The classification of the sales and operating revenue by geographic area shows sales recognized by geographic locations of the buyer. Therefore it is different from that of business segment information in Note 19 of Notes to Consolidated Financial Statements, which shows sales in terms of their origin by geographic area.

Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries
March 31

	Yen in millions		Dollars in thousands (Note 3)
	1996	**1997**	**1997**
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 6 and 12)	¥ 459,339	**¥ 428,518**	**$ 3,455,790**
Time deposits (Note 12)	32,605	**52,518**	**423,533**
Marketable securities (Note 9)	28,420	**120,094**	**968,500**
Notes and accounts receivable, trade (Notes 8 and 12)	923,566	**1,066,314**	**8,599,306**
Allowance for doubtful accounts and sales returns	(68,763)	**(93,732)**	**(755,903)**
Inventories (Note 7)	856,638	**869,800**	**7,014,516**
Deferred income taxes (Note 14)	83,291	**111,756**	**901,258**
Prepaid expenses and other current assets	208,891	**240,195**	**1,937,057**
Total current assets	2,523,987	**2,795,463**	**22,544,057**
Noncurrent inventories—film (Note 7)	186,007	**242,727**	**1,957,476**
Investments and advances:			
Affiliated companies	40,470	**52,547**	**423,766**
Securities investments and other (Note 9)	640,182	**734,332**	**5,922,032**
	680,652	**786,879**	**6,345,798**
Property, plant and equipment (Notes 10 and 17)**:**			
Land	164,563	**179,011**	**1,443,637**
Buildings	714,419	**818,084**	**6,597,452**
Machinery and equipment	1,618,612	**1,805,851**	**14,563,314**
Construction in progress	78,078	**72,661**	**585,976**
	2,575,672	**2,875,607**	**23,190,379**
Less—Accumulated depreciation	1,454,913	**1,636,696**	**13,199,161**
	1,120,759	**1,238,911**	**9,991,218**
Other assets:			
Intangibles (Notes 4 and 5)	104,733	**112,080**	**903,871**
Goodwill (Notes 4 and 5)	148,729	**161,840**	**1,305,161**
Deferred insurance acquisition costs (Note 11)	112,820	**148,032**	**1,193,806**
Other (Note 14)	168,038	**194,410**	**1,567,823**
	534,320	**616,362**	**4,970,661**
	¥5,045,725	**¥5,680,342**	**$45,809,210**

The accompanying notes are an integral part of these statements.

	Yen in millions		Dollars in thousands (Note 3)
	1996	**1997**	**1997**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 10 and 12)	¥ 292,396	**¥ 117,801**	**$ 950,008**
Current portion of long-term debt (Notes 10, 12 and 17)	133,863	**210,315**	**1,696,089**
Notes and accounts payable, trade (Notes 8 and 12)	565,044	**653,826**	**5,272,790**
Accounts payable, other and accrued expenses (Note 13)	418,612	**537,726**	**4,336,500**
Accrued income and other taxes	74,029	**169,480**	**1,366,774**
Other (Note 14)	223,656	**262,719**	**2,118,702**
Total current liabilities	1,707,600	**1,951,867**	**15,740,863**
Long-term liabilities:			
Long-term debt (Notes 10, 12 and 17)	1,203,592	**1,099,765**	**8,869,073**
Accrued pension and severance costs (Note 13)	123,959	**146,289**	**1,179,750**
Deferred income taxes (Note 14)	160,398	**173,951**	**1,402,831**
Future insurance policy benefits and other (Note 11)	447,316	**579,263**	**4,671,475**
Other	126,233	**154,912**	**1,249,290**
	2,061,498	**2,154,180**	**17,372,419**
Minority interest in consolidated subsidiaries	107,454	**114,867**	**926,347**
Stockholders' equity (Note 15)**:**			
Common stock, ¥50 par value—			
Authorized: 1,350,000,000 shares			
Issued: 1996—374,067,706 shares	299,885		
1997—384,185,043 shares		**332,037**	**2,677,718**
Additional paid-in capital	441,735	**474,033**	**3,822,847**
Legal reserve	31,380	**35,831**	**288,960**
Unrealized gain on securities (Note 9)	81,333	**67,278**	**542,564**
Retained earnings	617,343	**731,470**	**5,898,952**
Cumulative translation adjustment	(302,503)	**(181,221)**	**(1,461,460)**
	1,169,173	**1,459,428**	**11,769,581**
Commitments and contingent liabilities (Note 18)			
	¥5,045,725	**¥5,680,342**	**$45,809,210**

Consolidated Statements of Income and Retained Earnings

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 3)
	1995	1996	**1997**	**1997**
Sales and operating revenue:				
Net sales (Note 8)	¥3,826,693	¥4,339,411	**¥5,383,911**	**$43,418,637**
Insurance and financing revenue	138,747	231,198	**251,930**	**2,031,694**
Other operating revenue	25,143	21,956	**27,293**	**220,104**
	3,990,583	4,592,565	**5,663,134**	**45,670,435**
Costs and expenses:				
Cost of sales (Note 16)	2,916,475	3,216,806	**3,930,107**	**31,694,411**
Selling, general and administrative (Note 16)	842,783	917,887	**1,132,241**	**9,130,976**
Insurance and financing expenses	132,798	222,548	**230,456**	**1,858,516**
Goodwill write-off (Note 4)	265,167	—	**—**	**—**
	4,157,223	4,357,241	**5,292,804**	**42,683,903**
Operating income (loss)	(166,640)	235,324	**370,330**	**2,986,532**
Other income:				
Interest and dividends	22,362	18,053	**19,406**	**156,500**
Foreign exchange gain, net	22,789	—	**18,085**	**145,847**
Other	27,992	47,702	**55,152**	**444,774**
	73,143	65,755	**92,643**	**747,121**
Other expenses:				
Interest	65,354	67,095	**70,892**	**571,709**
Foreign exchange loss, net	—	25,580	**—**	**—**
Other	62,097	70,245	**79,652**	**642,355**
	127,451	162,920	**150,544**	**1,214,064**
Income (loss) before income taxes	(220,948)	138,159	**312,429**	**2,519,589**
Income taxes (Note 14)**:**				
Current	84,108	72,088	**169,060**	**1,363,387**
Deferred	(18,935)	5,070	**(5,490)**	**(44,274)**
	65,173	77,158	**163,570**	**1,319,113**
Income (loss) before minority interest	(286,121)	61,001	**148,859**	**1,200,476**
Minority interest in consolidated subsidiaries	7,235	6,749	**9,399**	**75,799**
Net income (loss)	(293,356)	54,252	**139,460**	**1,124,677**
Retained earnings:				
Balance, beginning of year	901,847	585,553	**617,343**	**4,978,573**
Common stock issue costs, net of tax	(8)	(2)	**—**	**—**
Cash dividends	(18,692)	(18,700)	**(20,882)**	**(168,403)**
Transfer to legal reserve	(4,238)	(3,760)	**(4,451)**	**(35,895)**
Balance, end of year	¥ 585,553	¥ 617,343	**¥ 731,470**	**$ 5,898,952**

	Yen			Dollars (Note 3)
Per common share:				
Net income (loss)	¥(696.9)	¥134.0	**¥309.2**	**$2.49**
Cash dividends	50.0	50.0	**55.0**	**0.44**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 3)
	1995	1996	**1997**	**1997**
Cash flows from operating activities:				
Net income (loss)	¥(293,356)	¥ 54,252	**¥ 139,460**	**$ 1,124,677**
Adjustments to reconcile net income (loss) to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	226,984	227,316	**266,532**	**2,149,452**
Goodwill write-off	265,167	—	**—**	**—**
Accrual for pension and severance costs, less payments	15,364	9,604	**19,521**	**157,427**
Loss on disposal of fixed assets	17,838	9,429	**13,411**	**108,153**
Deferred income taxes	(18,935)	5,070	**(5,490)**	**(44,274)**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(116,093)	(150,158)	**(65,905)**	**(531,492)**
(Increase) decrease in inventories	(86,740)	(69,157)	**41,825**	**337,298**
Increase in other current assets	(4,385)	(32,117)	**(2,906)**	**(23,435)**
Increase (decrease) in notes and accounts payable	56,112	(4,169)	**66,099**	**533,057**
Increase (decrease) in accrued income and other taxes	10,528	(6,064)	**89,887**	**724,895**
Increase in other current liabilities	57,309	54,438	**73,786**	**595,048**
Increase in future insurance policy benefits and other	76,100	174,223	**131,947**	**1,064,089**
Other	(23,954)	(38,490)	**(45,032)**	**(363,161)**
Net cash provided by operating activities	181,939	234,177	**723,135**	**5,831,734**
Cash flows from investing activities:				
Payments for purchases of fixed assets	(222,861)	(250,157)	**(298,187)**	**(2,404,734)**
Proceeds from sales of fixed assets	6,637	22,823	**14,940**	**120,484**
Payments for investments and advances	(326,684)	(490,330)	**(450,399)**	**(3,632,250)**
Proceeds from sales of investment securities and collections of advances	273,919	313,769	**316,787**	**2,554,734**
Payments for purchases of marketable securities	(115,244)	(54,964)	**(128,929)**	**(1,039,750)**
Proceeds from sales of marketable securities	81,432	101,913	**46,105**	**371,815**
(Increase) decrease in time deposits	27,595	(12,359)	**(18,361)**	**(148,073)**
Other	(2,727)	(1,694)	**46**	**371**
Net cash used in investing activities	(277,933)	(370,999)	**(517,998)**	**(4,177,403)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	29,853	381,239	**171,698**	**1,384,661**
Payments of long-term debt	(69,039)	(87,500)	**(209,383)**	**(1,688,573)**
Increase (decrease) in short-term borrowings	153,515	(145,527)	**(192,034)**	**(1,548,661)**
Dividends paid	(18,681)	(18,772)	**(18,657)**	**(150,460)**
Other	(2,595)	1,037	**881**	**7,105**
Net cash provided by (used in) financing activities	93,053	130,477	**(247,495)**	**(1,995,928)**
Effect of exchange rate changes on cash and cash equivalents	(5,735)	(9,871)	**11,537**	**93,040**
Net decrease in cash and cash equivalents	(8,676)	(16,216)	**(30,821)**	**(248,557)**
Cash and cash equivalents at beginning of year	484,231	475,555	**459,339**	**3,704,347**
Cash and cash equivalents at end of year	¥ 475,555	¥ 459,339	**¥ 428,518**	**$ 3,455,790**

The accompanying notes are an integral part of these statements.

1. Nature of operations

The company is engaged in the development, manufacture and sale of various kinds of electronic equipment, instruments and devices. The company's principal manufacturing facilities are located in Japan, the United States, Europe, and Asia, and its products are marketed by sales subsidiaries and unaffiliated local distributors throughout the world. The company is also engaged worldwide in the development, production, manufacture and distribution of recorded music, in all commercial formats and musical genres, and image-based software, including film, video, television and new entertainment technologies. Further, the company is engaged in insurance and financing activities. These activities are carried on principally through a Japanese stock life insurance subsidiary and also a Japanese financing subsidiary.

2. Summary of significant accounting policies

The parent company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domicile. Certain adjustments and reclassifications, including those relating to the tax effects of temporary differences, capitalization of stock purchase warrants, deferral of insurance acquisition costs, the accrual of certain expenses and the accounting for foreign currency translation, have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America (U.S. GAAP). These adjustments were not recorded in the statutory books of account.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies are as follows:

Basis of consolidation and accounting for investments in affiliated companies

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts are eliminated. Investments in 20% to 50% owned companies are stated at cost plus equity in undistributed earnings; consolidated net income (loss) includes the company's equity in current earnings (loss) of such companies, after elimination of unrealized intercompany profits.

On occasion, a subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either a public offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than the company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from change in interest are recorded in income for the year the change in interest transaction occurs.

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

During the year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill (see Note 4).

Translation of foreign currencies

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of stockholders' equity.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

Revenue recognition

Revenues from electronics sales and music are recognized when products are shipped to customers.

Motion picture revenue is recognized beginning on the date of theatrical exhibition. Revenue from television licensing agreements is recognized when the motion picture or television series first becomes available for telecast. Revenue from home videocassette sales is generally recognized on the date of shipment.

Insurance premiums are reported as revenue when due from policyholders. Benefits and expenses are associated with earned insurance premiums so as to result in the recognition of profits over the life of the

contracts. This association is accomplished through a provision for liabilities for future benefits and amortization of acquisition costs.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Debt and equity securities

On April 1, 1994, the company adopted Statement of Financial Accounting Standards No. 115 (FAS 115), Accounting for Certain Investments in Debt and Equity Securities, and recorded ¥73,000 million of unrealized gains on available-for-sale securities as a separate component of stockholders' equity on a net of tax basis. Under FAS 115, unrealized gains and losses on debt securities and equity securities classified as available-for-sale, whose fair values are readily determinable, are reported in a separate component of stockholders' equity, net of tax. Debt securities that are expected to be held to maturity are reported at amortized cost.

Inventories

Inventories in electronics and music entertainment are valued at cost, not in excess of market, cost being determined on the "average cost" basis except for the cost of finished products carried by certain subsidiary companies which is determined on the "first-in, first-out" basis.

Film costs include production, print, certain advertising costs and allocated overhead. Film costs are amortized in the proportion that revenue for a period relates to management's estimate of ultimate revenues. Unamortized film costs are compared with estimated net realizable value on an individual film basis and write-downs are recorded when indicated. Film costs for motion pictures and television programs that are expected to be amortized against revenues from primary markets are classified as current assets. Primary markets for motion pictures include theatrical, home videocassette and pay television. Primary markets for television programs include network and first-run syndication. All other film costs are classified as noncurrent.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the assets according to general class, type of construction and use. Significant renewals and additions are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income as incurred.

Intangibles and goodwill

Intangibles, which mainly consist of artist contracts and music catalogs, are being amortized on a straight-line basis principally over 16 years and 21 years, respectively.

Goodwill recognized in acquisitions accounted for as purchases is being amortized on a straight-line basis principally over a 40-year period.

Deferred insurance acquisition costs

Costs that vary with and are primarily related to acquiring new insurance policies are deferred and are being amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves.

Liability for insurance future policy benefits

Liability for insurance future policy benefits is computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets

During the fiscal year ended March 31, 1997, the company has adopted FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires that long-lived assets and certain identifiable intangibles held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets or intangibles may not be recoverable. The effect of adopting this statement was not material.

Income taxes

The provision for income taxes is computed based on the pretax income (loss) included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Derivative financial instruments

Derivative financial instruments are used in the company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities. Gains and losses on derivative financial instruments qualified as hedges to manage existing financial assets and liabilities are deferred and effectively offset gains and losses arising from the related assets and liabilities. Others used for hedging purposes but not qualifying for hedge accounting under U.S. GAAP are marked to market.

In July 1995, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus with regard to EITF No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party. EITF No. 95-2 requires companies to mark to market forward exchange contracts to hedge intercompany foreign currency commitments which do not qualify as firm commitments as defined by such consensus. Accordingly, the company has applied the provisions of EITF No. 95-2 effective as of the second quarter of the year ended March 31, 1996. Previously, gains or losses on those forward exchange contracts to hedge intercompany foreign currency commitments have been deferred in accordance with FAS 52 and EITF No. 91-1. The application of the provisions of EITF No. 95-2 did not have a material impact on the results of operations for the years ended March 31, 1996 and 1997.

Net income (loss) per common share

Net income (loss) per common share is computed based on the average number of shares of common stock outstanding during each period after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds. Net income (loss) per common share is appropriately adjusted for any free distributions of common stock.

In February 1997, the FASB issued FAS 128, Earnings per Share, which replaces the presentation of primary Earnings per Share (EPS) with a presentation of basic EPS and also requires dual presentation of basic and diluted EPS with an appropriate reconciliation of both computations. Basic EPS is computed based on the average number of shares of common stock outstanding during each period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. This Statement is effective for the both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. After the effective date, all prior-period EPS data presented shall be restated to conform with this Statement. Under the provisions of this Statement, the company's basic EPS for the years ended March 31, 1995, 1996 and 1997 would be ¥(784.7), ¥145.1 and ¥367.7 ($2.97), respectively, and also its diluted EPS for the years ended March 31, 1995, 1996 and 1997 would be ¥(784.7), ¥134.0 and ¥309.2 ($2.49), respectively (yen amounts in parentheses represent loss per share).

Distribution of common stock

On occasion, the company may make a free distribution of common stock which is accounted for either by a transfer of the applicable par value from the additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account. Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account by resolution of the general stockholders' meeting and the free share distribution with respect to the amount as appropriated by resolution of the Board of Directors' Meeting.

Common stock issue costs

Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

Reclassifications

Certain reclassifications of the statements of income and retained earnings in the years ended March 31, 1995 and 1996 have been made to conform with the presentation in the year ended March 31, 1997.

3. U.S. dollar amounts

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥124=U.S. $1, the approximate current rate at March 31, 1997, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Intangible assets and other long-lived assets including goodwill

During the second quarter of the year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill. Previously, the company assessed the carrying value of its investments in acquired businesses including goodwill on the basis of projections of undiscounted future operating cash flows plus an amount for an anticipated residual value. Under the new method adopted, the company applied a discount factor to those projected cash flows.

The company believed that the new method provided a better measurement of the recoverability of its investments because the discounted cash flows method recognized the effect of the substantial cost of capital employed to carry the investments. The effect of this accounting change was to reduce the goodwill of the Entertainment segment associated with the Pictures Group by ¥265,167 million.

Since its acquisition in November 1989, there had been slower than expected growth of the business of the Pictures Group, higher than expected levels of operating costs and expenses and higher than anticipated capital investment requirements. The deterioration experienced in the year ended March 31, 1994 gave rise to a thorough internal review. Similar results experienced in the first half of the year ended March 31, 1995, together with the resignation of the Pictures Group top management, caused the company to conclude that additional funding would be needed to attain acceptable levels of profitability. In light of the level of investments and likelihood of additional funding requirements, the company determined in the second quarter of the year ended March 31, 1995 that a discounted cash flows method provided a preferable measurement of the recoverability of its investments in acquired businesses because this method recognizes the effect of the cost of capital. The discounted future results of the Pictures Group, based on the company's forecasts, were not sufficient to justify the carrying value as of the end of the second quarter of the year ended March 31, 1995.

In formulating the financial forecasts, the company considered historical performance and the medium-term plans as well as the longer-term economic outlook. These forecasts took into consideration market conditions during the second quarter of the year ended March 31, 1995 as well as foreseeable opportunities for future growth in existing lines of business. Although the company believed it could fund the Pictures Group over the entire forecast period, it had not determined whether additional investments would be made in areas other than the existing lines of business.

The operating cash flows were based upon the short-term plans in effect in the second quarter of the year ended March 31, 1995 that called for a substantial improvement in earnings through recovered market share and cost reductions. For the longer term, it was assumed that the low levels of inflation then existing would continue and that the industry would grow at a slightly better rate than the economy as a whole. At the end of the forecast period a residual was included based on an appropriate multiple of the final year's results.

The company believes that the forecast results, based on the historical financial trends and market conditions during the second quarter of the year ended March 31, 1995, were the best estimate of the company's future performance.

In arriving at the discounted net present value, the company used a discount rate of 9% reflecting its weighted average cost of funds, including a factor for equity allocated to the Pictures Group, commensurate with the risk associated with that business as indicated by reference to comparable industry statistics.

Over the entire forecast period, after giving effect to significant additional investment required to complete the investment program contemplated during the second quarter of the year ended March 31, 1995, the company forecast total operating cash flows of ¥4,166,374 million. Based on such forecasts, the cumulative results of the Pictures Group's operating cash flows on a discounted net present value basis of ¥309,005 million as of September 30, 1994 were insufficient to recover a significant portion of the investment. The amount of the resultant shortfall reduced the goodwill balance arising from the Pictures Group to ¥85,197 million as of September 30, 1994.

As a result, the changes in the company's goodwill during the year ended March 31, 1995 are summarized as follows:

	Yen in millions
Balance at March 31, 1994	¥ 424,482
Amortization of goodwill	(8,037)
Goodwill write-off	(265,167)
Translation adjustment and other	(29,895)
Balance at March 31, 1995	¥ 121,383

During the years ended March 31, 1996 and 1997, there were no significant impairments of intangible assets or other long-lived assets including goodwill.

5. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill amounted to ¥151,131 million and ¥188,943 million ($1,523,734 thousand) at March 31, 1996 and 1997, respectively.

6. Cash flow information

Cash payments during the year
Cash payments for income taxes were ¥80,499 million, ¥88,565 million and ¥87,723 million ($707,444 thousand) for the years ended March 31, 1995, 1996 and 1997, respectively; in these respective years, interest payments were ¥70,464 million, ¥69,882 million and ¥ 68,004 million ($548,419 thousand).

Noncash investing and financing activities
Capital lease obligations of ¥6,557 million, ¥9,563 million and ¥4,824 million ($38,903 thousand) were incurred during the years ended March 31, 1995, 1996 and 1997, respectively.

Conversions of convertible debt into common stock and additional paid-in capital were ¥791 million, ¥680 million and ¥63,578 million ($512,726 thousand) for the years ended March 31, 1995, 1996 and 1997, respectively.

7. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
	1996	**1997**	**1997**
Current:			
Finished products	¥521,826	**¥527,418**	**$4,253,371**
Work in process	121,035	**119,406**	**962,952**
Raw materials, purchased components and supplies	135,411	**127,366**	**1,027,145**
Film —released	52,761	**73,767**	**594,895**
—in process	25,605	**21,843**	**176,153**
	¥856,638	**¥869,800**	**$7,014,516**
Noncurrent:			
Film —released	¥115,796	**¥143,003**	**$1,153,250**
—in process	70,211	**99,724**	**804,226**
	¥186,007	**¥242,727**	**$1,957,476**

8. Account balances and transactions with affiliated companies

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
	1996	**1997**	**1997**
Accounts receivable, trade	¥25,890	**¥13,232**	**$106,710**
Accounts payable, trade	425	**89**	**718**

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1995	1996	**1997**	**1997**
Sales	¥226,237	¥123,623	**¥96,183**	**$775,669**
Purchases	3,338	2,647	**733**	**5,911**

9. Marketable securities and securities investments

Marketable securities and securities investments and other include debt and equity securities of which the aggregate fair value, gross unrealized gains and losses and cost pertaining to available-for-sale securities are as follows:

	Yen in millions							
	March 31, 1996				**March 31, 1997**			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities . . .	¥341,554	¥ 11,592	¥2,149	¥350,997	**¥531,968**	**¥ 22,001**	**¥1,338**	**¥552,631**
Equity securities . .	49,842	158,279	1,006	207,115	**49,512**	**124,682**	**2,364**	**171,830**
Total	¥391,396	¥169,871	¥3,155	¥558,112	**¥581,480**	**¥146,683**	**¥3,702**	**¥724,461**

	Dollars in thousands			
	March 31, 1997			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Debt securities	**$4,290,065**	**$ 177,427**	**$10,790**	**$4,456,702**
Equity securities	**399,290**	**1,005,500**	**19,065**	**1,385,725**
Total	**$4,689,355**	**$1,182,927**	**$29,855**	**$5,842,427**

At March 31, 1997, debt securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 15 years.

During the years ended March 31, 1995, 1996 and 1997, the net unrealized gains on available-for-sale securities included in the separate component of stockholders' equity, net of applicable taxes, decreased by ¥8,028 million, increased by ¥16,361 million and decreased by ¥14,055 million ($113,347 thousand), respectively.

Proceeds from sales of available-for-sale securities on a specifically identified average cost basis were ¥299,727 million, ¥397,774 million and ¥347,790 million ($2,804,758 thousand) for the years ended March 31, 1995, 1996 and 1997, respectively. On those sales, gross realized gains were ¥3,440 million, ¥14,605 million and ¥19,174 million ($154,629 thousand) and gross realized losses were ¥1,863 million, ¥7,734 million and ¥ 9,877 million ($79,653 thousand), respectively.

The net change in unrealized gain or loss on trading securities that has been included in earnings during the years ended March 31, 1995, 1996 and 1997 was insignificant.

In the ordinary course of business, the company maintains long-term investment securities, included in securities investments and other, issued by a number of nonpublic companies. The aggregate carrying amounts of the investments in nonpublic companies were ¥50,146 million and ¥62,346 million ($502,790 thousand) at March 31, 1996 and 1997, respectively. The corresponding fair values at those dates were not computed as such estimation was not readily determinable.

10. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1997 comprise the following:

	Yen in millions	Dollars in thousands
Loans, principally from banks, with interest ranging from 0.68% to 9.80% per annum	¥103,851	$837,508
Commercial paper with interest ranging from 0.65% to 3.10% per annum	13,950	112,500
	¥117,801	$950,008

Long-term debt at March 31, 1997 comprises the following:

	Yen in millions	Dollars in thousands
Unsecured loans, representing obligations principally to banks, due 1997 to 2017 with interest ranging from 1.0% to 9.25% per annum	¥ 128,312	$ 1,034,774
Secured loans, representing obligations principally to insurance companies and banks, due 1998 to 2000 with interest ranging from 5.7% to 10.13% per annum	4,024	32,452
Medium-term notes of consolidated subsidiaries due 1997 to 2006 with interest ranging from 3.02% to 8.04% per annum	338,371	2,728,798
Unsecured 6.0% convertible debentures due 1997, convertible currently at ¥3,200.2 ($12.49 calculated at ¥256.30=$1) for one common share, redeemable before due date	14	113
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥4,159.9 ($33.55) for one common share, redeemable before due date	352	2,839
Unsecured 0.15% convertible bonds due 2001, convertible currently at ¥6,519 ($52.57) for one common share, redeemable before due date	243,326	1,962,306
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥4,387.9 ($35.39) for one common share, redeemable before due date	1,122	9,048
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥5,415.5 ($43.67) for one common share, redeemable before due date	25,391	204,766
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥7,990.9 ($64.44) for one common share, redeemable before due date	298,581	2,407,911
Unsecured 0.125% convertible bonds of a consolidated subsidiary, due 1998, convertible currently at ¥1,815 ($14.64) for one common share	316	2,548
Unsecured 0.1% bonds, due 1999 with detachable warrants	1,000	8,065
Unsecured 0.1% bonds, due 2000 with detachable warrants	2,000	16,129
Unsecured 6.875% bonds due 2000	50,232	405,097
Unsecured 4.4% bonds due 2001	80,000	645,161
Unsecured 1.95% bonds of a consolidated subsidiary, due 1998	15,000	120,968
Unsecured 2.55% notes of a consolidated subsidiary, due 2000	5,000	40,323
Unsecured 9-7/8% senior subordinated notes of a consolidated subsidiary, due 1998	38,240	308,387
Unsecured Nikkei-linked coupon notes of a consolidated subsidiary, due 1997	6,627	53,444
Unsecured 6.0% notes of a consolidated subsidiary, due 1997	12,565	101,331
Unsecured floating rate notes of a consolidated subsidiary, due 1997	14,830	119,597
Unsecured fixed coupon notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	807	6,508
Secured 3.8% bonds of a consolidated subsidiary, due 2001, redeemable before due date	3,000	24,194
Long-term capital lease obligations, 1.15% to 16.28% per annum, due 1997 to 2015	29,314	236,403
Guarantee deposits received	11,656	94,000
	1,310,080	10,565,162
Less—Portion due within one year	210,315	1,696,089
	¥1,099,765	$ 8,869,073

On September 1, 1995, the company issued ¥1 billion ($8,065 thousand) of 0.1% bonds, with detachable warrants. One warrant entitles the holders to subscribe ¥2 million ($16 thousand) for shares of common stock of the company at ¥5,330 ($43) per share (subject to adjustment in certain circumstances). Upon issuance of the bonds, the company bought all of these warrants and distributed such instruments at fair market value to the directors of the company as a part of their directors' remuneration. At March 31, 1997, 255 warrants were outstanding and will expire on August 31, 1999.

On February 26, 1996, the company issued ¥ 300 billion ($2,419,355 thousand) of 0.15% convertible bonds due 2001, which may be converted into shares of common stock of the company, at the option of the holder thereof, at any time. The conversion price is subject to adjustment in certain circumstances.

On August 16, 1996, the company issued ¥2 billion ($16,129 thousand) of 0.1% bonds, with detachable warrants. One warrant entitles the holders to subscribe ¥2 million ($16 thousand) for shares of common stock of the company at ¥7,022 ($57) per share (subject to adjustment in certain circumstances). Upon issuance of the bonds, the company bought all of these warrants and distributed such instruments at fair market value to the directors and employees of the company as a part of their remuneration or salary. At March 31, 1997, 909 warrants were outstanding and will expire on August 15, 2000.

At March 31, 1997, 80,083 thousand shares of common stock would be issued upon conversion or exercise of all convertible debentures and warrants outstanding.

At March 31, 1997, property, plant and equipment with a book value of ¥4,627 million ($37,315 thousand) is mortgaged as security for loans and bonds issued by consolidated subsidiaries.

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1998	¥210,315	$1,696,089
1999	94,465	761,815
2000	107,705	868,589
2001	348,834	2,813,177
2002	152,670	1,231,210

The basic agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

11. Insurance-related operations

The company's stock life insurance subsidiary maintains accounting records as noted in Note 2 in accordance with the accounting principles and practices prescribed by the Japanese Ministry of Finance (the "MOF"), which vary in some respects from U.S. GAAP. Those differences are mainly: that insurance acquisition costs are deferred and amortized generally over the premium-paying period of the insurance policies, that future policy benefits calculated locally under the authorization of the MOF are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions and that deferred income taxes are not recognized under local accounting practices. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with U.S. GAAP.

The amounts of statutory net equity as of March 31, 1996 and 1997 were ¥12,624 million and ¥12,625 million ($101,815 thousand), respectively.

Deferred insurance acquisition costs

Insurance acquisition costs to be deferred, such as commission expenses, medical examination and inspection report fees, etc., vary with and are primarily related to acquiring new insurance policies and are amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. Amortization charged to income for the years ended March 31, 1995, 1996 and 1997 amounted to ¥7,148 million, ¥9,694 million and ¥15,855 million ($127,863 thousand), respectively.

Future insurance policy benefits

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 3.5% to 6.25%, generally graded down after 10 to 20 years. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. At March 31, 1996 and 1997, future insurance policy benefits amounted to ¥392,119 million and ¥528,204 million ($4,259,710 thousand), respectively.

12. Financial instruments

The company has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. In applying a consistent risk management strategy, the company manages its exposure to market rate movements of its financial assets and liabilities through the use of derivative financial instruments which include currency forward exchange and option contracts and interest rate currency swap agreements designated as hedges. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, German mark and other currencies of major industrialized countries. Although the company may be exposed to losses in the event of nonperformance by counterparties or interest and currency rate movements, it does not anticipate significant losses due to the nature of its counterparties or the hedging arrangements.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments.

Cash and cash equivalents, time deposits and notes and accounts receivable, trade

In the normal course of business, substantially all cash and cash equivalents, time deposits and notes and accounts receivable, trade, are highly liquid and are carried at amounts which approximate fair value.

Notes and accounts payable, trade

In the normal course of business, substantially all notes and accounts payable, trade, are to be paid currently and their carrying amounts approximate fair value.

Short-term borrowings and long-term debt

The fair values of short-term borrowings and total long-term debt including the current portion were estimated based on the discounted amounts of future cash flows using the company's current incremental borrowing rates for similar liabilities.

Derivative financial instruments

The company enters into various currency forward exchange contracts, interest rate swap and interest rate currency swap agreements and foreign currency purchased and written options as a normal part of its risk management efforts, which include those transactions designed as hedges but that do not qualify for hedge accounting under U.S. GAAP. Gains and losses on those derivative financial instruments qualified for hedge accounting are deferred and effectively offset gains and losses on the underlying hedged assets and liabilities by recognizing them in the same period. Others used for hedging purposes but not qualified for hedge accounting under U.S. GAAP are marked to market. Such off-balance-sheet activities comprise the following:

Foreign exchange forward contracts, the majority of which mature within three months, are used to hedge the risk of changes in foreign currency exchange rates substantially associated with accounts receivable and payable and commitments on future trade transactions denominated in foreign currencies.

The purpose of the company's foreign currency hedging activities is to protect the company from the risk that the eventual Yen net cash inflows resulting from the sale of products to foreign customers will be adversely affected by changes in exchange rates. The contracted amounts outstanding at March 31, 1996 and 1997 were ¥843,090 million and ¥756,294 million ($6,099,145 thousand), respectively. The fair values of these contracts were estimated based on the market quotes.

Interest rate swap and interest rate currency swap agreements mature during 1997 to 2006 and the related differentials to be paid or received are recognized in interest expense over the terms of the agreements. Currency swap portions of the interest rate currency swap agreements are marked to market at the end of each period and the foreign exchange gain or loss recognized on the swap offsets the foreign exchange gain or loss recorded on the foreign-denominated debt. These agreements were arranged to lower funding costs, to diversify sources of funding and to limit the company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuations in foreign currency exchange and interest rates. At March 31, 1996 and 1997, the aggregate notional principal amounts of the interest rate swap agreements were ¥155,306 million and ¥176,705 million ($1,425,040 thousand), respectively, and those of the interest rate currency swap agreements were ¥233,685 million and ¥300,269 million ($2,421,524 thousand), respectively. The fair values of such agreements were estimated based on the discounted amounts of net future cash flows.

The company entered into foreign currency option purchased contracts in the notional amounts of ¥106,549 million and ¥196,990 million ($1,588,629 thousand) at March 31, 1996 and 1997, respectively. These contracts, the majority of which expire within three months of the balance sheet dates, are used in conjunction with the forward exchange contracts to hedge foreign currency exposure arising from accounts receivable and commitments on future trade transactions denominated in foreign currencies. The company also entered into foreign currency option written contracts in the notional amounts of ¥164,439 million and

¥185,621 million ($1,496,944 thousand) at March 31, 1996 and 1997, respectively. The majority of these contracts are part of range forward contract arrangements and expire in the same month with the corresponding currency option contracts purchased shown above and are limited to those which lower the premiums paid. The fair values of such foreign currency options were estimated based on the values quoted by brokers.

A consolidated insurance subsidiary entered into written government bond option contracts as an integral part of short-term investing activities in order to fix the yields from bonds on hand to certain ranges. All of these contracts expire within two months of the balance sheet dates and their notional principal amounts were ¥91,485 million and ¥204,945 million ($1,652,782 thousand) at March 31, 1996 and 1997, respectively. For accounting purposes, those transactions do not qualify for hedge accounting. Accordingly, those written bond option contracts were marked to market. The fair values of such written bond option contracts were estimated based on the market quotes.

The estimated fair values of the company's financial instruments excluding debt and equity securities, both on and off the balance sheets, are summarized as follows:

	Yen in millions	
	Carrying amount	Estimated fair value
At March 31, 1996		
Cash and cash equivalents	¥ 459,339	¥ 459,339
Time deposits	32,605	32,605
Notes and accounts receivable, trade	923,566	923,566
Short-term borrowings	(292,396)	(292,396)
Notes and accounts payable, trade	(565,044)	(565,044)
Long-term debt including the current portion	(1,337,455)	(1,247,781)
Forward exchange contracts	(2,226)	(4,058)
Interest rate and currency swap agreements	—	9,740
Option contracts purchased	1,577	1,577
Option contracts written	(1,232)	(1,232)
Bond option contracts written	(526)	(526)
At March 31, 1997		
Cash and cash equivalents	**¥ 428,518**	**¥ 428,518**
Time deposits	**52,518**	**52,518**
Notes and accounts receivable, trade	**1,066,314**	**1,066,314**
Short-term borrowings	**(117,801)**	**(117,801)**
Notes and accounts payable, trade	**(653,826)**	**(653,826)**
Long-term debt including the current portion	**(1,310,080)**	**(1,248,046)**
Forward exchange contracts	**997**	**2,464**
Interest rate and currency swap agreements	**—**	**(27,740)**
Option contracts purchased	**724**	**724**
Option contracts written	**(1,035)**	**(1,035)**
Bond option contracts written	**(1,026)**	**(1,026)**

	Dollars in thousands	
	Carrying amount	Estimated fair value
At March 31, 1997		
Cash and cash equivalents	**$ 3,455,790**	**$ 3,455,790**
Time deposits	**423,533**	**423,533**
Notes and accounts receivable, trade	**8,599,306**	**8,599,306**
Short-term borrowings	**(950,008)**	**(950,008)**
Notes and accounts payable, trade	**(5,272,790)**	**(5,272,790)**
Long-term debt including the current portion	**(10,565,162)**	**(10,064,887)**
Forward exchange contracts	**8,040**	**19,871**
Interest rate and currency swap agreements	**—**	**(223,710)**
Option contracts purchased	**5,839**	**5,839**
Option contracts written	**(8,347)**	**(8,347)**
Bond option contracts written	**(8,274)**	**(8,274)**

13. Pension and severance plans

Upon terminating employment, employees of the parent company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below. For employees voluntarily retiring, under normal circumstances, minimum payment is an amount based on current rates of pay and lengths of service. In calculating the minimum payment for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, the company may grant additional benefits. With respect to directors' resignations, lump-sum severance indemnities are calculated using a similar formula and are normally paid subject to the approval of the company's stockholders.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. Under the contributory pension plans, the defined benefits representing the noncontributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The company has a recorded pension liability to cover the amount of the projected benefit obligation in excess of plan assets, net of unrealized items. The pension benefits are determined based on years of service and the compensation amounts, as stipulated in the aforementioned regulations, are payable at the option of the retiring employee in a lump-sum amount or on a monthly pension. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

Most foreign subsidiaries have defined benefit pension plans or severance indemnity plans which substantially cover all of their employees, under which the cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on current rate of pay and lengths of service.

Net pension and severance costs and the related pension plans' funded status including the employees' contributory portion and rate assumptions are shown below:

Japanese plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1995	1996	**1997**	**1997**
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥23,987	¥29,276	**¥32,772**	**$264,290**
Interest cost on projected benefit obligation	11,024	11,090	**11,959**	**96,443**
Actual return on plan assets	(3,672)	(9,545)	**(14,373)**	**(115,911)**
Net amortization and deferral	2,828	7,245	**14,053**	**113,331**
Actuarial net pension and severance cost for the year	34,167	38,066	**44,411**	**358,153**
Employee contributions	(3,614)	(4,098)	**(4,073)**	**(32,847)**
Net pension and severance cost for the year	¥30,553	¥33,968	**¥40,338**	**$325,306**

Foreign plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1995	1996	**1997**	**1997**
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥10,198	¥10,790	**¥15,988**	**$128,935**
Interest cost on projected benefit obligation	2,839	3,197	**4,108**	**33,129**
Actual return on plan assets	68	(4,122)	**(3,897)**	**(31,427)**
Net amortization and deferral	(1,016)	1,860	**870**	**7,016**
Net pension and severance cost for the year	¥12,089	¥11,725	**¥17,069**	**$137,653**

Pension plans' funded status:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in thousands	Yen in millions		Dollars in thousands
	March 31		**March 31,**	March 31		**March 31,**
	1996	**1997**	**1997**	1996	**1997**	**1997**
Actuarial present value of obligations—						
Vested benefit	¥207,925	**¥268,719**	**$2,167,089**	¥38,439	**¥50,325**	**$405,847**
Nonvested benefit	42,544	**53,311**	**429,927**	3,877	**4,060**	**32,742**
Accumulated benefit obligation	250,469	**322,030**	**2,597,016**	42,316	**54,385**	**438,589**
Additional benefits related to projected salary increase	60,184	**71,418**	**575,952**	18,735	**20,288**	**163,613**
Projected benefit obligation	310,653	**393,448**	**3,172,968**	61,051	**74,673**	**602,202**
Plan assets at fair value	171,240	**204,491**	**1,649,121**	31,280	**43,837**	**353,524**
Excess of projected benefit obligation over plan assets	139,413	**188,957**	**1,523,847**	29,771	**30,836**	**248,678**
Unrecognized net loss	(30,722)	**(59,740)**	**(481,774)**	(5,280)	**(4,805)**	**(38,750)**
Unrecognized net transition asset	3,479	**3,104**	**25,032**	(771)	**1,453**	**11,717**
Unrecognized prior service cost	(10,766)	**(12,807)**	**(103,282)**	—	**—**	**—**
Net pension liability recognized in the balance sheet	¥101,404	**¥119,514**	**$ 963,823**	¥23,720	**¥27,484**	**$221,645**
Assumptions used in developing the pension obligation as of March 31:						
Discount rate	4.0%	**3.5%**		7.0– 9.0%	**6.5– 9.0%**	
Long-term rate of salary increase	3.2%	**3.0%**		3.0– 8.5%	**2.5– 8.5%**	
Long-term rate of return on funded assets	3.5%	**3.7%**		7.0–10.0%	**7.0–10.0%**	

As required under FAS 87, the assumptions are reviewed in accordance with changes in circumstances. Such changes in assumptions are the primary reason for the fluctuation in the projected benefit obligation and unrecognized net gains and losses.

The plan assets are invested primarily in interest bearing securities and listed equity securities.

14. Income taxes

The company is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 51%.

Reconciliations of the differences between the statutory tax rate and the effective income tax rate are as follows:

	Year ended March 31		
	1995	1996	**1997**
Statutory tax rate	(51.0)%	51.0%	**51.0%**
Increase (reduction) in taxes resulting from:			
Income tax credit	(2.0)	(2.8)	**(2.8)**
Nondeductible goodwill write-off	61.2	—	**—**
Current operating losses of subsidiaries, excluding nondeductible goodwill write-off	17.6	7.9	**5.2**
Other	3.7	(0.2)	**(1.0)**
Effective income tax rate	29.5%	55.9%	**52.4%**

The significant components of deferred tax assets and liabilities are as follows:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
	1996	**1997**	**1997**
Deferred tax assets:			
Operating loss carryforwards for tax purposes	¥ 58,304	**¥ 75,536**	**$ 609,161**
Warranty reserve and accrued expenses	29,998	**46,187**	**372,476**
Accrued pension and severance costs	37,938	**45,418**	**366,274**
Inventory—intercompany profits and write-down	38,793	**44,416**	**358,194**
Future insurance policy benefits	25,717	**34,580**	**278,871**
Other accrued employees' compensation	11,723	**14,465**	**116,653**
Other	94,261	**87,125**	**702,621**
Gross deferred tax assets	296,734	**347,727**	**2,804,250**
Less: Valuation allowance	(118,356)	**(122,258)**	**(985,952)**
Total deferred tax assets	178,378	**225,469**	**1,818,298**
Deferred tax liabilities:			
Unrealized gain on securities	(85,204)	**(72,741)**	**(586,621)**
Undistributed earnings of foreign subsidiaries	(51,995)	**(68,928)**	**(555,871)**
Insurance acquisition costs	(51,064)	**(67,004)**	**(540,355)**
Depreciation	(18,807)	**(17,041)**	**(137,427)**
Other	(33,647)	**(39,133)**	**(315,589)**
Gross deferred tax liabilities	(240,717)	**(264,847)**	**(2,135,863)**
Net deferred tax liabilities	¥ (62,339)	**¥ (39,378)**	**$ (317,565)**

The valuation allowance mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the years ended March 31, 1995, 1996 and 1997 were increases of ¥9,264 million, ¥28,174 million and ¥3,902 million ($31,468 thousand), respectively.

Net deferred tax liabilities are included in the consolidated balance sheets as follows:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
	1996	**1997**	**1997**
Deferred income taxes (Current assets)	¥ 83,291	**¥ 111,756**	**$ 901,258**
Other assets—Other	18,351	**27,158**	**219,016**
Current liabilities—Other	(3,583)	**(4,341)**	**(35,008)**
Deferred income taxes (Long-term liabilities)	(160,398)	**(173,951)**	**(1,402,831)**
Net deferred tax liabilities	¥ (62,339)	**¥ (39,378)**	**$ (317,565)**

At March 31, 1997, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥214,815 million ($1,732,379 thousand), and on the gain on a subsidiary's sale of stock of ¥61,544 million arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as the company does not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 1997 for such temporary differences amounted to ¥104,743 million ($844,702 thousand).

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 1997 amounted to approximately ¥218,100 million ($1,758,871 thousand) and are available as an offset against future taxable income of such subsidiaries. These carryforwards expire at various dates primarily up to 15 years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss carry-forwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

15. Stockholders' equity

Changes in common stock and additional paid-in capital have resulted from the following:

	Number of shares	Yen in millions: Common stock	Yen in millions: Additional paid-in capital
Balance at March 31, 1994	373,728,323	¥299,194	¥440,845
Conversion of convertible debt	183,167	395	396
Balance at March 31, 1995	373,911,490	299,589	441,241
Conversion of convertible debt	156,216	296	384
Common stock warrants	—	—	110
Balance at March 31, 1996	374,067,706	299,885	441,735
Exercise of stock purchase warrants	**117,838**	**336**	**336**
Conversion of convertible debt	**9,999,499**	**31,816**	**31,762**
Common stock warrants	**—**	**—**	**200**
Balance at March 31, 1997	**384,185,043**	**¥332,037**	**¥474,033**

	Dollars in thousands: Common stock	Dollars in thousands: Additional paid-in capital
Balance at March 31, 1996	$2,418,427	$3,562,379
Exercise of stock purchase warrants	**2,710**	**2,710**
Conversion of convertible debt	**256,581**	**256,145**
Common stock warrants	**—**	**1,613**
Balance at March 31, 1997	**$2,677,718**	**$3,822,847**

On November 20, 1991, the company made a free share distribution of 33,908,621 shares for which no accounting entry is required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million ($1,621,597 thousand) would have been transferred from retained earnings to the appropriate capital accounts.

Conversions of convertible debt into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of stated capital. The amounts of statutory retained earnings of the parent company available for the payments of dividends to stockholders as of March 31, 1996 and 1997 were ¥490,265 million and ¥507,253 million ($4,090,750 thousand), respectively. These amounts include cash dividends for the six-month periods ended March 31, 1996 and 1997, respectively, which have been incorporated in the accompanying consolidated financial statements.

The appropriations of retained earnings for the year ended March 31, 1997, which have been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the general stockholders' meeting to be held on June 27, 1997 and will be recorded in the statutory books of account, in accordance with the Japanese Commercial Code, after stockholders' approval.

An analysis of the changes in the cumulative translation adjustment is presented below:

	Yen in millions: Year ended March 31: 1995	1996	**1997**	Dollars in thousands: **Year ended March 31, 1997**
Balance, beginning of year	¥(335,703)	¥(411,167)	**¥(302,503)**	**$(2,439,540)**
Aggregate translation adjustment for the year	(75,354)	114,461	**127,705**	**1,029,879**
Income taxes for the year allocated to translation adjustment	(110)	(5,797)	**(6,423)**	**(51,799)**
Balance, end of year	¥(411,167)	¥(302,503)	**¥(181,221)**	**$(1,461,460)**

16. Research and development expenses and advertising costs

Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1995, 1996 and 1997 were ¥239,164 million, ¥257,326 million and ¥282,569 million ($2,278,782 thousand), respectively.

Advertising costs

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 1995, 1996 and 1997 were ¥141,017 million, ¥159,821 million and ¥216,579 million ($1,746,605 thousand), respectively.

17. Leased assets

The company leases certain plant facilities, office space, warehouses, employees' residential facilities and other assets.

An analysis of leased assets under capital leases is as follows:

	Yen in millions		Dollars in thousands
	March 31		**March 31,**
Class of property	1996	**1997**	**1997**
Land	¥ 2,351	**¥ 2,538**	**$ 20,468**
Buildings	23,080	**24,623**	**198,572**
Machinery and equipment	8,466	**9,682**	**78,081**
Accumulated amortization	(9,838)	**(13,022)**	**(105,016)**
	¥24,059	**¥ 23,821**	**$ 192,105**

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1997:

Year ending March 31	Yen in millions	Dollars in thousands
1998	¥ 6,521	$ 52,589
1999	5,222	42,113
2000	4,643	37,444
2001	4,118	33,210
2002	4,239	34,185
Later years	13,909	112,169
Total minimum lease payments	38,652	311,710
Less—Amount representing interest	9,338	75,307
Present value of net minimum lease payments	29,314	236,403
Less—Current obligations	4,409	35,556
Long-term capital lease obligations	¥24,905	$200,847

Rental expenses under operating leases for the years ended March 31, 1995, 1996 and 1997 were ¥79,295 million, ¥81,385 million and ¥86,570 million ($698,145 thousand), respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 1997 are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1998	¥ 38,526	$ 310,693
1999	34,687	279,734
2000	30,388	245,064
2001	23,864	192,452
2002	20,643	166,476
Later years	132,739	1,070,476
Total minimum future rentals	¥280,847	$2,264,895

18. Commitments and contingent liabilities

Commitments outstanding at March 31, 1997 for the purchase of property, plant and equipment and other assets approximated ¥49,562 million ($399,694 thousand).

Contingent liabilities for notes discounted and guarantees given in the ordinary course of business and for employee loans amounted to ¥98,377 million ($793,363 thousand) at March 31, 1997.

The company has entered into agreements with financial institutions whereby the company can sell up to ¥62,000 million ($500,000 thousand) of specifically identified accounts receivable and future receivables with limited recourse. For the years ended March 31, 1995, 1996 and 1997, the company did not sell any specifically identified accounts receivable or future receivables. As of March 31, 1996 and 1997, the outstanding balance of all receivables sold with limited recourse amounted to ¥6,678 million and ¥868 million ($7,000 thousand), respectively.

The company has also entered into agreements with financial institutions whereby the company can sell up to ¥117,800 million ($950,000 thousand) of undivided interests in a pool of eligible receivables with limited recourse. The maximum pool of eligible receivables sold outstanding at any one time during the years ended March 31, 1995, 1996 and 1997 amounted to ¥72,535 million, ¥71,868 million and ¥0 million ($0 thousand), respectively. As of March 31, 1996 and 1997, there were no outstanding balances of receivables sold.

Under the terms of each of the receivable sale agreements, the company has retained substantially the same risk of credit loss as if the receivables had not been sold. The company has fully reserved for these potential credit losses. The company pays fees which approximate the purchasers' costs of issuing commercial paper and are included in other expense.

Certain subsidiaries in the music entertainment industry entered into long-term contracts with recording artists and companies for the production and/or distribution of prerecorded music and videos. These contracts cover various periods mainly through March 31, 2000. As of March 31, 1997, these subsidiaries were committed to make payments under such long-term contracts of ¥21,545 million ($173,750 thousand).

The company and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both the company and its legal counsel, management of the company believes that damages from such lawsuits, if any, would not have a material effect on the company's consolidated financial statements.

19. Business segment information

The company operates on a worldwide basis principally within three industry segments: 1) Electronics, 2) Entertainment and 3) Insurance and financing. The Electronics segment designs, develops, manufactures and distributes video equipment, audio equipment, televisions and other products. The Entertainment segment manufactures, markets and distributes music and pictures entertainment products. The Insurance and financing segment represents insurance business, primarily individual life insurance business in the Japanese market, and other financing business, which consists of customer financing and leasing business also in the Japanese market.

The following tables present certain information regarding the company's industry segments and operations by geographic areas at March 31, 1995, 1996 and 1997 and for the years then ended:

Industry segments:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1995	1996	**1997**	**1997**
Sales and operating revenue:				
Electronics—				
Customers	¥3,075,228	¥3,530,154	**¥4,387,739**	**$35,384,992**
Intersegment	12,963	39,321	**22,664**	**182,774**
Total	3,088,191	3,569,475	**4,410,403**	**35,567,766**
Entertainment—				
Customers	776,608	831,213	**1,023,465**	**8,253,750**
Intersegment	4,959	10,838	**20,521**	**165,492**
Total	781,567	842,051	**1,043,986**	**8,419,242**
Insurance and financing—				
Customers	138,747	231,198	**251,930**	**2,031,693**
Intersegment	14,106	16,001	**17,424**	**140,516**
Total	152,853	247,199	**269,354**	**2,172,209**
Elimination	(32,028)	(66,160)	**(60,609)**	**(488,782)**
Consolidated	¥3,990,583	¥4,592,565	**¥5,663,134**	**$45,670,435**
Operating income (loss):				
Electronics	¥ 121,624	¥190,586	**¥303,406**	**$2,446,823**
Entertainment	(273,270)*	54,878	**66,279**	**534,508**
Insurance and financing	5,949	8,362	**21,209**	**171,040**
Corporate and elimination	(20,943)	(18,502)	**(20,564)**	**(165,839)**
Consolidated	¥(166,640)	¥235,324	**¥370,330**	**$2,986,532**
Identifiable assets:				
Electronics	¥2,469,688	¥2,903,430	**¥3,168,676**	**$25,553,839**
Entertainment	1,007,741	1,271,860	**1,533,185**	**12,364,395**
Insurance and financing	528,277	748,150	**870,406**	**7,019,403**
Corporate assets and elimination	218,214	122,285	**108,075**	**871,573**
Consolidated	¥4,223,920	¥5,045,725	**¥5,680,342**	**$45,809,210**
Depreciation and amortization:				
Electronics	¥164,914	¥167,591	**¥191,041**	**$1,540,653**
Entertainment	37,952**	33,697	**43,614**	**351,726**
Insurance and financing, including deferred insurance acquisition costs	20,600	23,001	**29,047**	**234,250**
Corporate	3,518	3,027	**2,830**	**22,823**
Consolidated	¥226,984	¥227,316	**¥266,532**	**$2,149,452**
Capital expenditures:				
Electronics	¥175,070	¥194,417	**¥231,756**	**$1,869,000**
Entertainment	58,898	41,782	**50,205**	**404,879**
Insurance and financing	13,118	12,844	**14,171**	**114,282**
Corporate	3,592	2,154	**1,946**	**15,694**
Consolidated	¥250,678	¥251,197	**¥298,078**	**$2,403,855**

** Including write-off of goodwill in the second quarter of the year ended March 31, 1995*
*** Excluding write-off of goodwill in the second quarter of the year ended March 31, 1995*

Geographic areas:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31,**
	1995	1996	**1997**	**1997**
Sales and operating revenue:				
Japan—				
Customers	¥ 1,479,190	¥ 1,768,132	**¥ 2,048,406**	**$ 16,519,403**
Intersegment	1,175,446	1,275,251	**1,386,422**	**11,180,823**
Total	2,654,636	3,043,383	**3,434,828**	**27,700,226**
U.S.A.—				
Customers	1,153,550	1,250,712	**1,672,173**	**13,485,266**
Intersegment	51,637	113,121	**126,637**	**1,021,266**
Total	1,205,187	1,363,833	**1,798,810**	**14,506,532**
Europe—				
Customers	778,465	886,468	**1,100,958**	**8,878,694**
Intersegment	11,994	30,299	**42,381**	**341,782**
Total	790,459	916,767	**1,143,339**	**9,220,476**
Other—				
Customers	579,378	687,253	**841,597**	**6,787,072**
Intersegment	454,854	509,120	**603,518**	**4,867,081**
Total	1,034,232	1,196,373	**1,445,115**	**11,654,153**
Elimination	(1,693,931)	(1,927,791)	**(2,158,958)**	**(17,410,952)**
Consolidated	¥ 3,990,583	¥ 4,592,565	**¥ 5,663,134**	**$ 45,670,435**
Operating income (loss):				
Japan	¥ 75,878	¥147,582	**¥259,376**	**$2,091,742**
U.S.A.	(296,417)*	32,372	**30,928**	**249,419**
Europe	46,959	48,621	**70,597**	**569,331**
Other	47,862	55,772	**69,858**	**563,371**
Corporate and elimination	(40,922)	(49,023)	**(60,429)**	**(487,331)**
Consolidated	¥(166,640)	¥235,324	**¥370,330**	**$2,986,532**
Identifiable assets:				
Japan	¥2,282,291	¥2,603,041	**¥2,888,019**	**$23,290,476**
U.S.A.	931,884	1,243,565	**1,517,302**	**12,236,307**
Europe	498,259	623,069	**697,940**	**5,628,548**
Other	395,517	547,348	**690,100**	**5,565,323**
Corporate assets and elimination	115,969	28,702	**(113,019)**	**(911,444)**
Consolidated	¥4,223,920	¥5,045,725	**¥5,680,342**	**$45,809,210**
Export sales and operating revenue:				
To U.S.A.	¥110,645	¥125,547	**¥141,420**	**$1,140,484**
To Europe	85,589	110,718	**122,947**	**991,508**
To Other	193,818	169,271	**209,568**	**1,690,064**
Total	¥390,052	¥405,536	**¥473,935**	**$3,822,056**

** Including write-off of goodwill in the second quarter of the year ended March 31, 1995*

Transfers between industry or geographic segments are made at arms-length prices. Operating income (loss) is sales and operating revenue less costs and operating expenses. Corporate expenses of the geographic segments include certain research and development expenses unallocable to the segments. Identifiable assets are those assets used in the operations of each industry or geographic segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

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Price Waterhouse

May 6, 1997

To the Stockholders and Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1996 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 4 to the consolidated financial statements, the company changed its method of accounting for assessing the carrying values of its investments in acquired businesses including goodwill in the year ended March 31, 1995.

Price Waterhouse

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Information
If you have any questions or would like a copy of our Form 20-F annual report filed with the U.S. Securities and Exchange Commission or quarterly report to shareholders, please direct your request to:

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Sony on the Internet
Sony's Home Pages on the World Wide Web offer a wealth of corporate and product information, including the latest annual report and financial results.
"Sony online World" http://www.world.sony.com/
"Sony online USA" http://www.sony.com/

Environmental Report
If you would like a copy of the above report, please direct your request to:
Sony Corporation
Corporate Environmental Affairs
Phone: (03) 5448-3533
Facsimile: (03) 5448-7838

Ordinary General Meeting of Shareholders
The Ordinary General Meeting of Shareholders will be held at the end of June in Tokyo.

Independent Accountants
Price Waterhouse
Tokyo, Japan

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Shareholder Relations
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Overseas Stock Exchange Listings
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Antwerp, Vienna, and Swiss stock exchanges

Japanese Stock Exchange Listings
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges

Number of Shareholders
(As of March 31, 1997)
216,057

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